

\$500,000,000

Tennessee Valley Authority

1996 Series A QIDS

7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities)

The 7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities) ("1996 Series A QIDS") will pay interest quarterly, on March 31, June 30, September 30 and December 31 of each year, commencing June 30, 1996. The 1996 Series A QIDS will be redeemable, in whole or in part, on not less than 30 and not more than 60 days' notice at any time on or after March 31, 2001 at the option of Tennessee Valley Authority ("TVA" or "Corporation") at a redemption price equal to 100 percent of the principal amount plus accrued interest to the redemption date. The 1996 Series A QIDS will be represented by Global Securities that will be deposited with The Depository Trust Company ("DTC") and will be available for purchase in denominations of \$25 and any integral multiple thereof. See "Description of the 1996 Series A QIDS" — "Book-Entry System". The obligations of TVA under the 1996 Series A QIDS are subordinate in right of payment to all Senior Debt (as defined herein) of TVA. See "Description of 1996 Series A QIDS" — "Subordination".

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest on the 1996 Series A QIDS will be payable solely from TVA's Net Power Proceeds (as defined herein).

The 1996 Series A QIDS have been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol "TVB".

See "Risk Factors" on page C-3 for certain information relevant to an investment in the 1996 Series A QIDS, including the period and circumstances during and under which payment of interest on the 1996 Series A QIDS may be deferred and the related federal income tax consequences.

THE 1996 SERIES A QIDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE 1996 SERIES A QIDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

| | Initial Public Offering Price (1) | Underwriting Discount | Proceeds to TVA (1) (2) |
|------------------------------|--|----------------------------------|------------------------------------|
| Per 1996 Series A QIDS | 100.00% | 3.10% | 96.90% |
| Total (3) | \$500,000,000 | \$15,500,000 | \$484,500,000 |

(1) Plus accrued interest, if any, from April 26, 1996.

(2) Before deducting expenses payable by TVA estimated at \$250,000.

(3) TVA has granted to the Underwriters a two business day option to purchase, on the same terms set forth above, up to \$75,000,000 aggregate principal amount of additional 1996 Series A QIDS at the Initial Public Offering Price (less the Underwriting Discount) solely to cover over-allotments, if any. If the option is exercised in full, the total Initial Public Offering Price, Underwriting Discount and Proceeds to TVA will be \$575,000,000, \$17,825,000 and \$557,175,000, respectively.

The 1996 Series A QIDS are offered by the several Underwriters subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Underwriters of the 1996 Series A QIDS and to certain further conditions. It is expected that delivery of the 1996 Series A QIDS, will be made through the facilities of DTC, New York, New York on or about April 26, 1996, against payment therefor in immediately available funds.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Dean Witter Reynolds Inc.

A.G. Edwards & Sons, Inc.

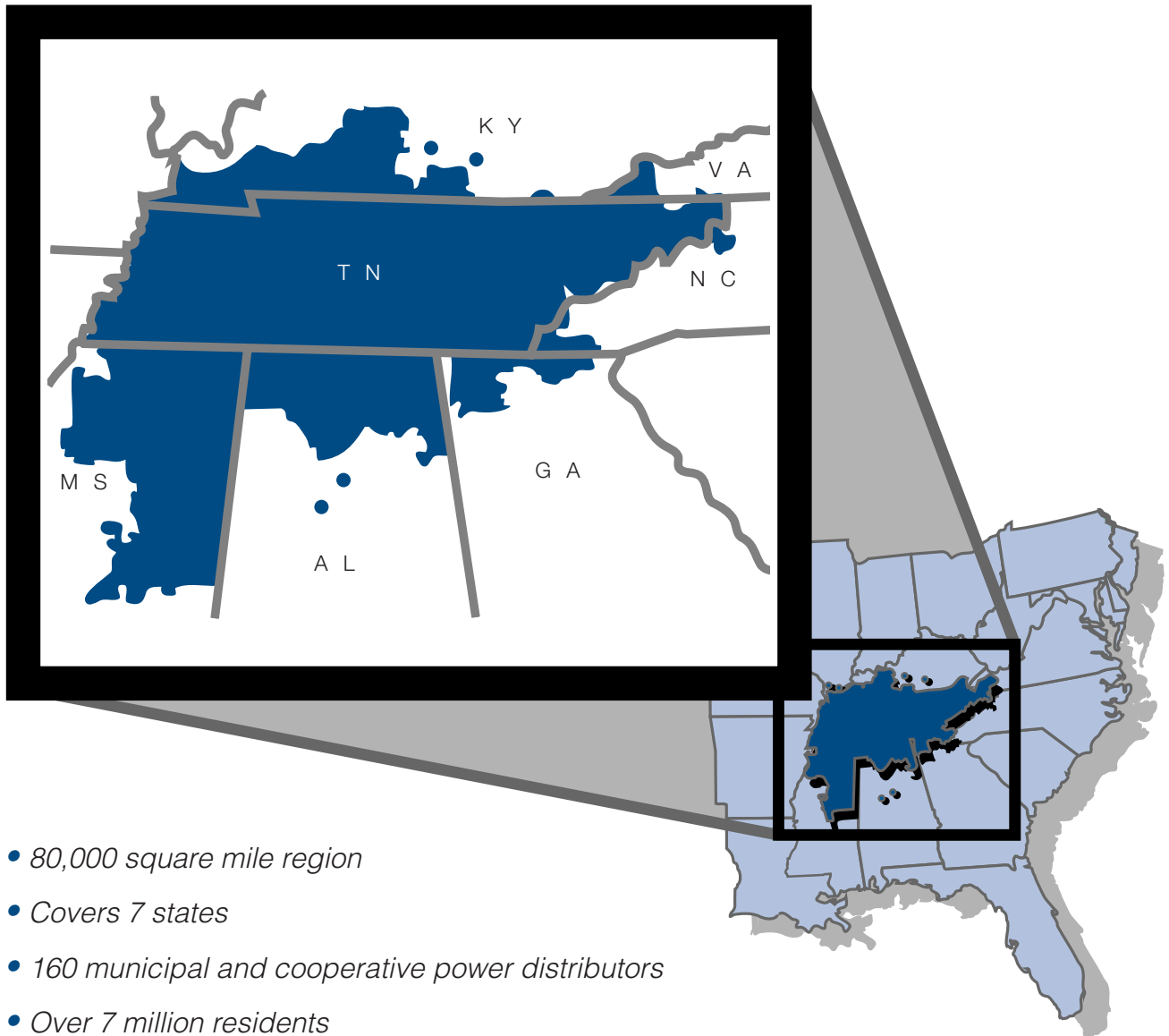
PaineWebber Incorporated

Prudential Securities Incorporated

Smith Barney Inc.

The date of this Offering Circular is April 19, 1996.

Region Served by The Tennessee Valley Authority



- 80,000 square mile region
- Covers 7 states
- 160 municipal and cooperative power distributors
- Over 7 million residents

TVA is a federal corporation established by Congress in 1933. TVA supplies electricity and develops resources in areas covering parts of seven states.

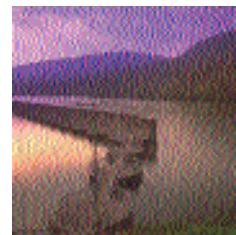


B U I L D I N G A C O M P E T I T I V E F U T U R E

TVA is poised to be a major player in what is predicted to be a new, highly competitive electric utility market. With one of the largest generating and transmission systems in the United States, TVA's power operations form a vital part of the nation's energy infrastructure.



Like many corporations, TVA has in recent years taken steps to reduce expenses and at the same time improve its products and services. As a result, TVA has frozen its power rates for nine years in a row, and plans to extend the rate freeze through at least 1997. TVA's distributors already have among the lowest residential rates in the country.



TVA is a unique organization that is part business and part government. It operates an electric power system but also carries out programs mandated by the U.S. Congress, such as economic development, natural resource development, and flood control on the Tennessee River.

TVA's electric power operations are entirely self funding and are not supported by federal tax dollars. Revenues from TVA power sales were about \$5.4 billion in fiscal year 1995.

TVA's congressionally mandated programs are funded through federal tax dollars. Congressional appropriations were about \$138 million in fiscal year 1995.

TVA was cited in 1994 as a "model government reinvention laboratory" by Vice President Albert Gore's National Performance Review Team. The designation identifies TVA as a role model for other government organizations.

TVA's programs involving power production, economic development, and resource development have for 63 years improved the quality of life in the Tennessee Valley. Together, these programs attract business and industry to the area, create jobs, and promote the wise use of natural resources. TVA touches the lives of millions of people in ways that demonstrate how we are so much more than just an electric utility.



TVA Vision

To be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs.

TVA Goals

Customer Driven

Be recognized by our customers as the best and easiest corporation with which to do business. Anticipate the needs of our customers and continue to offer competitive prices.

Employee Sensitive

Continually train employees to meet the challenges of the future; provide opportunities for employee career growth; attract and retain the most qualified employees who will take initiative and accept responsibility and accountability for exceeding customer expectations.

Environmentally Responsible

Be a recognized leader in environmental stewardship in the interests of our customers, our employees and the other publics TVA serves.

Growth Oriented

Aggressively and sensibly pursue growth and alliances that will add value to society, provide opportunities for our employees and ensure the future success of the corporation.



IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1996 SERIES A QIDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated March 20, 1996 and any supplement thereto (the "current Information Statement") which is incorporated herein by this reference. Any statement contained in the current Information Statement shall be deemed modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and of the current Information Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366. The then current information statement and other information concerning TVA may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

RISK FACTORS

Prospective purchasers of 1996 Series A QIDS should carefully review the information contained elsewhere in this Offering Circular and should consider the following matters:

Subordination of 1996 Series A QIDS. The obligations of TVA under the 1996 Series A QIDS are subordinate in right of payment to all Senior Debt (as defined herein) of TVA. At March 31, 1996, outstanding Senior Debt of TVA aggregated approximately \$26.8 billion (not including \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements). There are no terms in the 1996 Series A QIDS that limit TVA's ability to incur additional indebtedness, including indebtedness that ranks senior to the 1996 Series A QIDS. See "Description of the 1996 Series A QIDS" — "Subordination".

Option to Extend Interest Payment Period. TVA has the right under the Resolutions (as defined herein) authorizing the issuance of the 1996 Series A QIDS to extend the interest payment period from time to time on the 1996 Series A QIDS to a period not exceeding 24 consecutive months (the "Extension Period"); provided, that, TVA shall not extend the interest payment period unless in the judgment of TVA's Board, as evidenced by a Board resolution, payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment cannot feasibly be made because of inadequacy of funds occasioned by drought, poor business conditions, emergency replacements, or other factors beyond the control of TVA. If, prior to the expiration of any such Extension Period, TVA shall make (A) any payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment or (B) any other similar or analogous payments to the United States Treasury or the United States which are in the nature of a return on or repayment of any investment by the United States in TVA, then the Extension Period shall immediately end. TVA believes that the extension of an interest payment period on the 1996 Series A QIDS is unlikely.

As a consequence of any such extension, quarterly interest payments on the 1996 Series A QIDS would be deferred (but would continue to accrue with interest thereon) during any such Extension Period. At the end of the Extension Period, TVA shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the 1996 Series A QIDS to the extent permitted by applicable law). Prior to the termination of any such Extension Period, TVA may further extend the interest payment period, provided that such Extension Period, together with all such previous and further extensions thereof, may not exceed 24 consecutive months or extend beyond the maturity of the 1996 Series A QIDS. Upon the termination of any Extension Period and the payment of all amounts then due, TVA may select a new Extension Period, subject to the above requirements. See "Description of the 1996 Series A QIDS" — "Option to Extend Interest Payment Period".

Should an Extension Period occur, U.S. beneficial owners of 1996 Series A QIDS will continue to accrue income for United States federal income tax purposes even though interest is not being paid on a current basis. As a result, such a U.S. beneficial owner will include such interest in gross income for

United States federal income tax purposes in advance of the receipt of cash. See “Tax Considerations Applicable to 1996 Series A QIDS”.

Certain Trading Characteristics of the 1996 Series A QIDS. The 1996 Series A QIDS have been approved for listing on the New York Stock Exchange, subject to notice of issuance. Trading of the 1996 Series A QIDS on the New York Stock Exchange is expected to commence within a thirty-day period after the initial delivery of the 1996 Series A QIDS. The 1996 Series A QIDS are expected to trade “flat.” This means that purchasers will not pay and sellers will not receive any accrued and unpaid interest on the 1996 Series A QIDS that is not included in the trading price. However, for United States federal income tax purposes, interest on the 1996 Series A QIDS is included in income as it accrues, rather than when it is paid. See “Tax Consideration Applicable to 1996 Series A QIDS”.

SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement (and any supplement thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.

| | |
|----------------------------------|---|
| Issuer | TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended. |
| Securities Offered | \$500,000,000 aggregate principal amount (\$575,000,000 if the Underwriters' over-allotment option is exercised in full) of 7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities). |
| Interest | The 1996 Series A QIDS will bear interest from April 26, 1996, at the annual rate set forth on the cover page hereof, payable quarterly in arrears on each March 31, June 30, September 30, and December 31, commencing June 30, 1996. Under certain circumstances, TVA may elect to extend the interest period on the 1996 Series A QIDS. See "Risk Factors" and "Description of the 1996 Series A QIDS" — "Option to Extend Interest Payment Period". |
| Redemption | The 1996 Series A QIDS will be redeemable, in whole or in part, at any time on or after March 31, 2001 at the option of TVA at a redemption price equal to 100 percent of the principal amount plus accrued interest to the redemption date (the "Redemption Date"). |
| Listing | New York Stock Exchange (Symbol: "TVB"). |
| Ranking | 1996 Series A QIDS are obligations of TVA subordinated to all Senior Debt (as defined herein) of TVA, including all Power Bonds, Discount Notes and other Evidences of Indebtedness of TVA. |
| Depository | The Depository Trust Company. |
| Form of 1996 Series A QIDS | The 1996 Series A QIDS will be issued and maintained and may be transferred by beneficial owners only through the facilities of DTC. See "Description of 1996 Series A QIDS" — "Book-Entry System". |
| Use of Proceeds | The net proceeds received by TVA from the sale of the 1996 Series A QIDS will be used to retire existing debt. |
| Source of Payment | The interest and principal on the 1996 Series A QIDS are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "The Basic Resolution: Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement. |

| | |
|---|---|
| Legality of Investment | <p>The following describes the legality of investment of TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment of 1996 Series A QIDS. Generally, Evidences of Indebtedness:</p> <ul style="list-style-type: none"> • are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America; • are eligible as collateral for Treasury tax and loan accounts; • are among those obligations which national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus; • are eligible as collateral for advances by Federal Reserve Banks to depository institutions; • are legal investments for federal savings associations and federal savings banks to the extent specified in applicable regulations; • are eligible as collateral for advances by Federal Home Loan Banks for which Evidences of Indebtedness are legal investments; and • are legal investments for federal credit unions. <p>See "Legality of Investment".</p> |
| No Acceleration Right..... | The 1996 Series A QIDS will not contain any provision permitting acceleration of the maturity thereof on the occurrence of any default. |
| Taxation | Interest on the 1996 Series A QIDS is subject to federal income taxation. Under the Act, the 1996 Series A QIDS are exempt as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. U.S. beneficial owners will be required to report interest on the 1996 Series A QIDS as it accrues, regardless of whether it has been paid. The 1996 Series A QIDS are subject to various other tax consequences. See "Tax Considerations Applicable to 1996 Series A QIDS". |
| Ratings | As an instrumentality and corporate agency of the United States and consistent with the practice of other United States government agencies, TVA does not currently seek ratings from any nationally recognized statistical rating organization with respect to its securities (other than its Global Power Bonds) and does not intend to seek a rating for the 1996 Series A QIDS. There can be no assurance as to whether such a rating organization might seek to rate the 1996 Series A QIDS on its own initiative. |
| CUSIP Number for 1996 Series A QIDS | 880591 201 |

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority is the largest public electric power system in the United States of America, producing more than 139 billion kilowatthours of electricity in fiscal year 1995. The TVA system is the supplier of electric power to a region containing 7.3 million people located in parts of seven states: Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia.

TVA is a wholly owned corporate agency and instrumentality of the United States established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"), primarily to develop and manage the resources of the Tennessee Valley region. The programs at TVA consist of power and nonpower programs. TVA's electric system operations are required to be self-supporting from power system revenues, which were about \$5.4 billion in fiscal year 1995. No tax dollars go into the operation of TVA's power program. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of 1996 Series A QIDS") that may only be used to finance its power program. TVA's nonpower activities include responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. Congress provided \$109 million for TVA's nonpower programs in fiscal year 1996.

For 63 years, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage, its power program brought electricity to a large undeveloped area of the country and its economic development program has contributed to a vast increase in the number of jobs in the Valley.

TVA's mission has evolved over the years as the needs of its customers have changed. The stated Vision of TVA is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs". Operational excellence is the cornerstone of a successful future for TVA as it enters an era of deregulation. TVA reached an all-time peak demand of 25,995 megawatts on February 5, 1996. It successfully restarted two nuclear generating units last year and achieved a nuclear generating capacity factor of 80 percent in 1995, exceeding the nuclear industry average of 77.6 percent during the same period.

In looking to the future, TVA recently completed an integrated resource plan built on extensive public input, resulting in a 25-year plan to meet future energy needs. It is completing a Strategic Planning Process to define how it will meet the challenges of a deregulated electric utility industry, including considering alliances with the private sector, both in the United States and internationally. TVA is committed to competing in a deregulated environment and will use its flexibility to respond to market changes while fulfilling its role of being an energy leader in price, service, and environmental stewardship.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the 1996 Series A QIDS will be used to retire existing debt.

RECENT DEVELOPMENTS

Financial Results

The condensed financial statements for TVA's power program for the fiscal years ended September 30, 1995 and 1994 have been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the six months ended March 31, 1996 and 1995 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of results for such periods. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the six months ended March 31, 1996 are not necessarily indicative of results for fiscal year 1996.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
CONDENSED BALANCE SHEETS
At March 31, 1996 and September 30, 1995**

| | March 31, 1996 | September 30, 1995 |
|---|-------------------|-----------------------|
| | (Millions) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 9 | \$ 52 |
| Accounts receivable | 633 | 681 |
| Inventories, at average cost | 372 | 355 |
| Total current assets | 1,014 | 1,088 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Completed plant | 20,219 | 18,412 |
| Less accumulated depreciation | (6,339) | (6,061) |
| Net completed plant | 13,880 | 12,351 |
| Construction in progress | 8,299 | 9,556 |
| Deferred nuclear generating units | 6,236 | 6,227 |
| Nuclear fuel and capital lease assets | 1,154 | 1,167 |
| Total property, plant, and equipment | 29,569 | 29,301 |
| INVESTMENT FUNDS | 272 | 260 |
| DEFERRED CHARGES AND OTHER ASSETS | 2,698 | 2,644 |
| Total assets | <u>\$33,553</u> | <u>\$33,293</u> |
| LIABILITIES AND PROPRIETARY CAPITAL | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 490 | \$ 694 |
| Accrued liabilities | 139 | 130 |
| Accrued interest | 491 | 455 |
| Short-term debt | 3,352 | 2,831 |
| Current maturities of long-term debt | 1,516 | 1,306 |
| Total current liabilities | 5,988 | 5,416 |
| OTHER LIABILITIES | 1,386 | 1,264 |
| LONG-TERM DEBT | | |
| Senior Debt: Public Bonds | 18,603 | 19,153 |
| Federal Financing Bank | 3,200 | 3,200 |
| Subordinated Debt: Public Bonds | 600 | 600 |
| Unamortized Discount | (372) | (370) |
| Total long-term debt | 22,031 | 22,583 |
| PROPRIETARY CAPITAL | | |
| Appropriation investment | 618 | 628 |
| Retained earnings reinvested in power program | 3,530 | 3,402 |
| Total proprietary capital | 4,148 | 4,030 |
| Total liabilities and proprietary capital | <u>\$33,553</u> | <u>\$33,293</u> |

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
For the Six Months Ended March 31, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

| | Six Months Ended March 31, | | Fiscal Year Ended September 30, | |
|---|---------------------------------------|-----------------|--|----------------|
| | 1996 | 1995 (1) | 1995 | 1994 |
| | (Millions) | | | |
| OPERATING REVENUES | | | | |
| Sales of electric energy | | | | |
| Municipalities and cooperatives | \$2,467 | \$2,212 | \$4,654 | \$4,582 |
| Industries directly served | 224 | 217 | 460 | 452 |
| Federal Agencies | 80 | 85 | 179 | 296 |
| Other | 43 | 44 | 82 | 71 |
| Total operating revenues | <u>2,814</u> | <u>2,558</u> | <u>5,375</u> | <u>5,401</u> |
| OPERATING EXPENSES | | | | |
| Fuel and purchased power, net | 630 | 657 | 1,443 | 1,493 |
| Operating and maintenance | 548 | 490 | 1,050 | 1,081 |
| Depreciation and amortization | 384 | 339 | 703 | 639 |
| Tax-equivalent payments | 127 | 125 | 252 | 248 |
| Total operating expenses | <u>1,689</u> | <u>1,611</u> | <u>3,448</u> | <u>3,461</u> |
| OPERATING INCOME | <u>1,125</u> | <u>947</u> | <u>1,927</u> | <u>1,940</u> |
| OTHER INCOME AND EXPENSE, NET (2) | (2) | (96) | (91) | (59) |
| Income before interest charges | <u>1,123</u> | <u>851</u> | <u>1,836</u> | <u>1,881</u> |
| INTEREST CHARGES | | | | |
| Interest expense | 1,040 | 997 | 2,024 | 1,853 |
| Allowance for funds used during construction (3) | (67) | (111) | (198) | (123) |
| Net interest charges | <u>973</u> | <u>886</u> | <u>1,826</u> | <u>1,730</u> |
| NET INCOME (LOSS) | 150 | (35) | 10 | 151 |
| Return on appropriation investment | 22 | 21 | 42 | 42 |
| Increase (decrease) in retained earnings | 128 | (56) | (32) | 109 |
| Retained earnings reinvested at beginning of period | <u>3,402</u> | <u>3,434</u> | <u>3,434</u> | <u>3,325</u> |
| Retained earnings reinvested at end of period | <u>\$3,530</u> | <u>\$3,378</u> | <u>\$3,402</u> | <u>\$3,434</u> |

- (1) The six months ended March 31, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.
- (2) In August 1995, TVA determined that the cost of the voluntary early-out package offered to all TVA employees in the first quarter of 1995 was \$136 million, rather than the \$88 million charge previously reported. Accordingly, these Condensed Statements of Operations and Retained Earnings and the Condensed Statements of Cash Flows as of and for the six months ended March 31, 1995, have been restated to reflect the revised cost. The effect of the correction was to increase the charge included in Other Income and Expense, Net and decrease Net Income by \$48 million.
- (3) Effective October 1, 1994 TVA changed its method of determining the interest rate used to calculate the allowance for funds used during construction. The change was made to more accurately reflect the nature of the indebtedness issued to fund construction. The effect of the change for fiscal 1995 was to increase the amount of interest capitalized by approximately \$56 million.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

| | Six Months Ended March 31, | | Fiscal Year Ended September 30, | |
|--|-------------------------------|--------------|------------------------------------|-----------------|
| | 1996 | 1995(1) | 1995 | 1994 |
| | (Millions) | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income (loss) (2) | \$ 150 | \$ (35) | \$ 10 | \$ 151 |
| Items not requiring cash | 455 | 305 | 701 | 909 |
| Other changes, net(2) | (164) | (50) | 91 | 84 |
| Net cash provided by operating activities | <u>441</u> | <u>220</u> | <u>802</u> | <u>1,144</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Construction expenditures | (596) | (908) | (1,868) | (2,015) |
| Allowance for funds used during construction | 67 | 111 | 198 | 123 |
| Other, net | <u>(78)</u> | <u>(67)</u> | <u>(201)</u> | <u>(36)</u> |
| Net cash used in investing activities | <u>(607)</u> | <u>(864)</u> | <u>(1,871)</u> | <u>(1,928)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Borrowings, net | 155 | 716 | 1,181 | 735 |
| Other | <u>(32)</u> | <u>(31)</u> | <u>(62)</u> | <u>(62)</u> |
| Net cash provided by financing activities | <u>123</u> | <u>685</u> | <u>1,119</u> | <u>673</u> |
| Net change in cash and cash equivalents | <u>\$ (43)</u> | <u>\$ 41</u> | <u>\$ 50</u> | <u>\$ (111)</u> |

(1) The six months ended March 31, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.

(2) See Note 2 to Condensed Statements of Operations and Retained Earnings.

Results of Operations for the Six Months Ended March 31, 1996

Net power income of \$150 million for the six months ended March 31, 1996 was a \$185 million increase over the same period ended March 31, 1995. Electric sales for the six months ended March 31, 1996 increased 8 percent over the same period ended March 31, 1995, from 64.1 billion kilowatthours to 69.2 billion kilowatthours. Operating revenues for the six months ended March 31, 1996 increased \$256 million from \$2,558 million to \$2,814 million when compared to the same period ended March 31, 1995. The increase in electric sales and in operating revenues is primarily due to system load growth and to colder weather conditions as compared to last year.

Operating expenses for the six months ended March 31, 1996 increased \$78 million from \$1,611 million in the same period ended March 31, 1995. Other income and deductions include items not directly associated with the production of energy. Charges to nonoperating income and expenses for the six months ended March 31, 1995 were primarily due to a one-time nonoperating charge of \$136 million for a voluntary early-out package offered to all TVA employees during the six months ended March 31, 1995. Net interest expense increased \$87 million from \$886 million in the six months ended March 31, 1995 to \$973 million for the same period ended March 31, 1996. Interest on indebtedness increased due to added borrowings for TVA's power program and a reduction in the allowance for funds used during construction.

Liquidity and Capital Resources

In November 1995, TVA issued in the public market \$1,000 million in Global Power Bonds (due 2000) and \$600 million in Global Power Bonds (due 2025) to retire existing debt.

In April 1996, TVA issued in the public market \$600 million in Power Bonds (due 2036) to retire existing debt.

DESCRIPTION OF 1996 SERIES A QIDS

General

The 1996 Series A QIDS are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Tennessee Valley Authority Subordinated Debt Resolution adopted on March 29, 1995 (the "Subordinated Debt Resolution"), and the resolution authorizing the issuance of the 1996 Series A QIDS adopted on October 24, 1995 (the "Supplemental Subordinated Debt Resolution" and together with the Subordinated Debt Resolution, the "Resolutions"). The Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the 1996 Series A QIDS in compliance with Section 15d(c) of the Act. The 1996 Series A QIDS will be Subordinated Debt Securities (as defined below) of TVA issuable pursuant to the Resolutions and payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. The 1996 Series A QIDS are subordinated to all Senior Debt (as defined below under "Subordination") of TVA.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to the Subordinated Debt Resolution are hereinafter referred to as the "Subordinated Debt Securities".

The aggregate amount of Evidences of Indebtedness (including Subordinated Debt Securities) at any one time outstanding is limited by the Act to \$30 billion. As of March 31, 1996, TVA had approximately \$27.4 billion of Evidences of Indebtedness outstanding. There are also \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit. For information with respect to TVA's Power Bonds and its Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), see "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness" in the current Information Statement.

The 1996 Series A QIDS will be Subordinated Debt Securities and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Subordinated Debt Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Subordinated Debt Resolution) or interest therein. The Act also requires TVA to make certain payments to the United States Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Subordinated Debt Resolution). See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury" in the current Information Statement.

As to the application of Net Power Proceeds, Bonds (as defined in the Basic Resolution) rank senior to other Evidences of Indebtedness (including Subordinated Debt Securities) as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. The payment of the principal of and the interest on all Senior Debt, including such Power Bonds, ranks senior to the payment of principal

and interest on the 1996 Series A QIDS. See “Subordination”. For a further discussion of the application of Net Power Proceeds, see “Certain Provisions of the Tennessee Valley Authority Act” and “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Application of Net Power Proceeds” in the current Information Statement. There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act and the Basic Resolution. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” in the current Information Statement.

So long as the 1996 Series A QIDS are in book-entry form, DTC, its nominee, a successor securities depository or its nominee, as the case may be, will be the sole Registered Holder (as defined below) of the 1996 Series A QIDS for all purposes under the Resolutions. Accordingly, each person owning a beneficial interest in the 1996 Series A QIDS (a “beneficial owner”) must rely on the procedures of DTC and, if such person is not a Participant (as defined below), on the procedures of the Participant through which such person owns its interest in order to exercise any rights of a Registered Holder under the Resolutions. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. Such limits and such laws may impair the ability to transfer beneficial interests in the 1996 Series A QIDS. See “Book-Entry System” below.

The summaries herein of certain provisions of the Act and the Resolutions do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act and the Resolutions, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

Payment of Principal and Interest

The 1996 Series A QIDS will consist of \$500,000,000 aggregate principal amount (\$575,000,000 if the Underwriters’ over-allotment option is exercised in full) of 7½% Quarterly Income Debt Securities Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities). The 1996 Series A QIDS (and beneficial interests therein) will be issued in minimum denominations of \$25 and integral multiples thereof in book-entry form only through DTC. Unless deferred, interest will be payable quarterly in arrears on March 31, June 30, September 30, and December 31 (each an “Interest Payment Date”) commencing June 30, 1996. Such interest payments will include interest accrued from and including April 26, 1996 or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The principal amount of all 1996 Series A QIDS, together with the interest accrued and unpaid thereon, is due in full on March 31, 2046 (the “Maturity Date”). Payments of principal and interest on the 1996 Series A QIDS will be made on the applicable payment dates to the person in whose name the 1996 Series A QIDS are registered on TVA’s books and records (the “Registered Holder”) as of the close of business on the Business Day preceding such payment dates.

In any case in which an Interest Payment Date, Redemption Date, or the Maturity Date is not a Business Day, payment of principal or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, Redemption Date, or the Maturity Date. The term “Business Day” shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

Subordination

The Subordinated Debt Resolution provides that the 1996 Series A QIDS will be subordinate and subject in right of payment to the prior payment in full of all Senior Debt of TVA, whether outstanding at the date of issuance of the 1996 Series A QIDS or thereafter incurred.

No payment of principal of (including redemption payments), or interest on, the 1996 Series A QIDS may be made if any Senior Debt is not paid when due, any applicable grace period with respect to such

default has ended and such default has not been cured or waived. The rights of the holders of the 1996 Series A QIDS will be subrogated to the rights of the holders of Senior Debt to receive payments or distributions applicable to Senior Debt until all amounts owing on the 1996 Series A QIDS are paid in full.

The term “Senior Debt” shall mean the principal of, premium on, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of issuance of the 1996 Series A QIDS or thereafter incurred or created; all indebtedness of TVA issued pursuant to Section 15d of the TVA Act represented by bonds, notes, or other evidences of indebtedness; and all renewals, extensions, or refundings of indebtedness of the kinds described above; unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is *pari passu* with the 1996 Series A QIDS.

The Resolutions do not limit the aggregate amount of Senior Debt that TVA may issue. As of March 31, 1996, outstanding Senior Debt of TVA aggregated approximately \$26.8 billion (not including \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements).

Redemption

The 1996 Series A QIDS are subject to redemption at the option of TVA upon not less than 30 nor more than 60 days’ notice to each Registered Holder at any time on or after March 31, 2001, as a whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued interest to the Redemption Date. For practices of DTC with respect to notice of redemption and selection of beneficial interests to be redeemed in the event of a partial redemption, see “Book-Entry System”.

Option to Extend Interest Payment Period

TVA shall have the right at any time during the term of the 1996 Series A QIDS to extend the interest payment period from time to time to a period not exceeding 24 consecutive months (the “Extension Period”) by electing not to pay interest on the 1996 Series A QIDS on any Interest Payment Date. At the end of the Extension Period TVA shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the 1996 Series A QIDS to the extent permitted by applicable law); provided that TVA shall not extend the interest payment period unless in the judgment of TVA’s Board, as evidenced by a Board Resolution, payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment (as defined in the Subordinated Debt Resolution) cannot feasibly be made because of inadequacy of funds occasioned by drought, poor business conditions, emergency replacements, or other factors beyond the control of TVA. If, prior to the expiration of any such Extension Period, TVA shall make (A) any payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment or (B) any other similar or analogous payments to the United States Treasury or the United States which are in the nature of a return on or repayment of any investment by the United States in TVA, then the Extension Period shall immediately end. TVA believes that the extension of an interest payment period on the 1996 Series A QIDS is unlikely.

Prior to the termination of any such Extension Period, TVA may further extend the interest payment period, provided that such Extension Period, together with all such previous and further extensions thereof, may not exceed 24 consecutive months, or extend beyond the maturity of the 1996 Series A QIDS. Upon the termination of any Extension Period and the payment of all amounts then due, TVA may select a new Extension Period, subject to the above requirements. No interest during an Extension Period shall be due and payable, except at the end thereof.

TVA shall give notice to the Registered Holders of 1996 Series A QIDS of its selection of such Extension Period ten Business Days prior to the earlier of (i) the next Interest Payment Date or (ii) the date TVA is required to give notice to the New York Stock Exchange or other applicable self-regulatory organization of such Interest Payment Date.

At September 30, 1995, the United States had a net Appropriation Investment in TVA of approximately \$628 million. The TVA Act requires the payment to the U.S. Treasury from Net Power Proceeds in excess of those required for debt service of (i) a return on such net Appropriation Investment plus (ii) repayment of such investment with annual payments of \$20 million until a total of \$1 billion has been repaid. The amount of return paid in fiscal year 1995 under clause (i) was \$42 million and is based on the Appropriation Investment as of the beginning of the year and the computed average interest rate payable by the United States Treasury on its total marketable public obligations as of the same date. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years if, in the judgment of TVA's Board, such payments to the United States Treasury cannot feasibly be made for reasons described above. Repayments toward the \$1 billion totaled \$630 million at September 30, 1995. Following repayment of such \$1 billion, TVA will continue to be obligated to pay a return on the remaining Appropriation Investment. These payments are analogous to dividends paid to equity owners of a corporation.

Modifications of Resolutions and Outstanding Subordinated Debt Securities

The Subordinated Debt Resolution provides for amendments to it, to any Supplemental Subordinated Debt Resolution, and to any outstanding Subordinated Debt Securities. In summary, amendments of the respective rights and obligations of TVA and the Registered Holders of Subordinated Debt Securities may be made with the written consent of the Registered Holders of at least $66\frac{2}{3}$ percent in principal amount of the outstanding Subordinated Debt Securities to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Subordinated Debt Securities, or in the above percentage for any such consent, cannot be made without the consent of the Registered Holders of such Subordinated Debt Securities.

In addition, TVA may amend the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution without the consent of the Registered Holders of Subordinated Debt Securities in order (1) to close the Subordinated Debt Resolution against the issuance of additional Subordinated Debt Securities or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Subordinated Debt Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Subordinated Debt Securities issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution, so long as such amendments are not contrary to, or inconsistent with, the Subordinated Debt Resolution or such Supplemental Subordinated Debt Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interest of Registered Holders of outstanding Subordinated Debt Securities.

Events of Default

Any of the following shall be deemed an Event of Default under the Subordinated Debt Resolution: (i) default in the payment of the principal or redemption price of any Subordinated Debt Security when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Subordinated Debt Security when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Subordinated Debt Security or in the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution for 90 days after written notice specifying such failure has been given to TVA by the Registered Holders of at least 5 percent in aggregate principal amount of the then outstanding Subordinated Debt Securities.

Upon any such Event of Default, the Registered Holders of the Subordinated Debt Securities may proceed to protect and enforce their respective rights, subject to the restrictions described below. The

Registered Holders of at least 5 percent in aggregate principal amount of Subordinated Debt Securities then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of Registered Holders of Subordinated Debt Securities, and (iii) to protect and enforce the rights of Registered Holders of Subordinated Debt Securities. Subordinated Debt Securities do not provide for acceleration upon an Event of Default.

Such Registered Holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of any Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

Registered Holders of a majority in aggregate principal amount of the outstanding Subordinated Debt Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of, or interest on any Subordinated Debt Securities.

Satisfaction, Discharge and Defeasance

TVA's obligations on the 1996 Series A QIDS and under the Subordinated Debt Resolution will be satisfied and discharged when payment of the principal of, and any applicable redemption premiums on, all outstanding 1996 Series A QIDS of such series, plus interest thereon, to the respective dates of payment (a) shall have been made in accordance with the terms thereof; or (b) shall have been provided for by depositing in irrevocable trust with a paying agent (other than TVA) (i) money in an amount, or (ii) U.S. Government Obligations (as defined in the Subordinated Debt Resolution) which through the scheduled payment of principal and interest in accordance with their terms will provide, money in an amount, or (iii) a combination thereof, in each case sufficient for such purpose. In the case of (b), above, all amounts which remain unclaimed at the end of six years after the respective redemption dates or Maturity Date will be repaid to TVA and thereafter the holder of any of such Subordinated Debt Securities remaining unpaid shall look only to TVA for payment thereof.

In the event TVA elects to have subsection (b) above apply to the 1996 Series A QIDS (a "defeasance") TVA shall have received an opinion of counsel stating that (i) TVA has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of the Subordinated Debt Resolution, there has been a change in the applicable federal income tax law, in either case to the effect that the holders of the 1996 Series A QIDS will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge to be effected with respect to the 1996 Series A QIDS and will be subject to federal income tax on the same amount in the same manner and at the same times as would be the case if such deposit, defeasance and discharge were not to occur.

Book-Entry System

The 1996 Series A QIDS will be represented by Global Securities (as defined in the Subordinated Debt Resolution) which will be deposited with, or on behalf of, DTC, and will be registered in the name of Cede & Co. (DTC's partnership nominee). Beneficial interests in the 1996 Series A QIDS will be available for purchase in denominations of \$25 and integral multiples thereof.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct Participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned

by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1996 Series A QIDS under the DTC system must be made by or through Direct Participants, which will receive a credit for 1996 Series A QIDS on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the 1996 Series A QIDS are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in 1996 Series A QIDS, except in the event that use of the book-entry system for the 1996 Series A QIDS is discontinued.

To facilitate subsequent transfers, all 1996 Series A QIDS deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1996 Series A QIDS with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 1996 Series A QIDS; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1996 Series A QIDS are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. as the Registered Holder of the 1996 Series A QIDS. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Accounting for such redemptions by Direct Participants to Indirect Participants and by Direct and Indirect Participants to beneficial owners will be governed by arrangements among them.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1996 Series A QIDS. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 1996 Series A QIDS will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the date on which interest is payable in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or TVA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of TVA. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing services as securities depository with respect to the 1996 Series A QIDS at any time by giving reasonable notice to TVA. TVA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). Under such circumstances, TVA may

select a substitute depository to act as securities depository for the 1996 Series A QIDS or, in the event that a successor securities depository is not obtained, deliver certificates representing the 1996 Series A QIDS as provided in the Supplemental Subordinated Debt Resolution. See “Discontinuance of Book-Entry System” below.

None of TVA, the Underwriters (except as a Direct or Indirect Participant), any paying agent or any other agent of TVA will have any responsibility or liability for any aspect of the records relating to or payments made or to be made on account of beneficial ownership interests in the Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Discontinuance of Book-Entry System

If use of the book-entry system is discontinued and no substitute depository or successor depository is selected by TVA the provisions of this section shall apply.

1996 Series A QIDS issued in exchange for the Global Securities will be registered in the name or names of such person or persons as DTC (or a successor depository) shall instruct TVA. It is expected that such instructions will be based upon directions received by DTC from its Participants with respect to ownership of beneficial interests in such Global Security. Thereafter, registration of transfer or exchange of certificates representing the 1996 Series A QIDS may be made in the office of TVA or a securities registrar appointed by TVA (the “Registrar”) in the Borough of Manhattan, the City of New York. No service charge will be made by TVA or any Registrar appointed by TVA for any such registration of transfer or exchange of certificates representing the 1996 Series A QIDS, but TVA may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than exchanges pursuant to the Resolutions not involving any transfer).

Payment of principal of and interest on the 1996 Series A QIDS will be made at the office or agency of TVA maintained for such purpose in the Borough of Manhattan, the City of New York; provided however that at the option of TVA interest may be paid by check mailed to the address of the Registered Holder entitled thereto as such address shall appear in the register maintained by TVA or a Registrar appointed by TVA.

LEGALITY OF INVESTMENT

The following generally describes the legality of investment of TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment of the 1996 Series A QIDS.

Evidences of Indebtedness are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

Evidences of Indebtedness are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

National banks may deal in, underwrite and purchase Evidences of Indebtedness for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept Evidences of Indebtedness as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in Evidences of Indebtedness without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

Evidences of Indebtedness are eligible as collateral for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which Evidences of Indebtedness are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

Federal credit unions may purchase Evidences of Indebtedness. 12 U.S.C. § 1757(7)(E).

Evidences of Indebtedness are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations.

TAX CONSIDERATIONS APPLICABLE TO 1996 SERIES A QIDS

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the ownership of the 1996 Series A QIDS, without consideration of the particular facts and circumstances of each beneficial owner's situation. In addition, the rules described below and their application to the 1996 Series A QIDS are subject to change. Thus, each prospective beneficial owner and any other person or entity may neither construe as legal advice nor rely on the following discussion but rather each is urged to consult its own tax advisor with respect to United States federal and state tax consequences of holding 1996 Series A QIDS, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, “U.S. Person” means a citizen or resident of the United States, or a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term “U.S. beneficial owner” includes any U.S. Person which is a beneficial owner of a 1996 Series A QIDS and any person which is a beneficial owner of a 1996 Series A QIDS to the extent that the income attributable to such 1996 Series A QIDS is effectively connected with the person's conduct of a United States trade or business.

U.S. beneficial owners

A U.S. beneficial owner is subject to federal income taxation on the income from the 1996 Series A QIDS, and there is no special exemption for 1996 Series A QIDS from United States federal estate and gift tax. The Act, however, provides that the 1996 Series A QIDS are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of 1996 Series A QIDS.

Because of the possibility that the payment of interest on the 1996 Series A QIDS may be deferred during an Extension Period, none of the interest will qualify as “qualified stated interest” under the Treasury regulations pertaining to taxation of interest on debt instruments and all interest accruing on the 1996 Series A QIDS will be treated as “original issue discount”. Consequently, interest on the 1996 Series A QIDS will be included in income of U.S. beneficial owners as it accrues, rather than when the interest is paid. Thus, upon the occurrence of an Extension Period, a U.S. beneficial owner will be required to continue accruing interest on its 1996 Series A QIDS and including the interest in income, even though actual payment of this interest will be deferred. A U.S. beneficial owner's tax basis of a 1996 Series A QIDS will be increased by the amount of any accrued, but unpaid, interest thereon; if and when the accrued interest is paid, the U.S. beneficial owner's basis will be reduced by the amount of the interest payment.

If a U.S. beneficial owner purchases a 1996 Series A QIDS for less than its revised issue price (that is, the issue price of the 1996 Series A QIDS increased, generally, by all accrued but unpaid interest at the time of purchase), in general, that difference will be market discount (unless the discount is less than ¼ of 1% of the stated redemption price at maturity of the 1996 Series A QIDS multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S.

beneficial owner elects for federal income tax purposes to accrue market discount in income currently, any gain on a disposition of market discount 1996 Series A QIDS will be ordinary income to the extent of the accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the 1996 Series A QIDS may be deferred. A U.S. beneficial owner who purchases a 1996 Series A QIDS for greater than its revised issue price will be generally entitled and required to reduce the amount of interest otherwise accruable on the 1996 Series A QIDS by the amount of such excess, determined on a straight line basis or, if elected by the holder, on a constant interest basis.

A U.S. beneficial owner will generally recognize gain or loss on the sale or retirement of 1996 Series A QIDS equal to the difference between the amount realized from the sale or retirement and the tax basis of the 1996 Series A QIDS. Assuming the 1996 Series A QIDS are held as capital assets (and subject to the market discount rules discussed above), such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the 1996 Series A QIDS have been held for more than one year.

Non-U.S. beneficial owners

Generally, a non-U.S. beneficial owner will not be subject to United States federal income taxation on interest on the 1996 Series A QIDS. To qualify for the exemption from taxation, the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If 1996 Series A QIDS are held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the 1996 Series A QIDS on behalf of the beneficial owner. Recently, proposed Treasury regulations were issued which would modify these certification procedures. Generally, if the proposed modifications were adopted, the certification procedures would not be more burdensome on non-U.S. beneficial owners than the current procedures. It can not be predicted whether these proposed modifications will be adopted, either with or without amendments thereto.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of 1996 Series A QIDS will not be subject to federal income taxation in respect of such amount. Certain exceptions may be applicable and individual non-U.S. beneficial owners are therefore urged to consult a tax advisor.

The 1996 Series A QIDS will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 31 percent may apply to payments made in respect of the 1996 Series A QIDS to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the 1996 Series A QIDS to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of 1996 Series A QIDS to (or through) a broker, the broker must withhold at a rate of 31 percent of the reportable payment, unless either (i) the broker determines that the seller is

a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. The requirements generally will apply to a United States office of a broker, and the information reporting requirement generally will apply to a foreign corporation within the meaning of Section 957 (a) of the Internal Revenue Code or (ii) 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, TVA has agreed to sell to each of the Underwriters named below, and each of such Underwriters, for whom Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Dean Witter Reynolds Inc., A.G. Edwards & Sons, Inc., PaineWebber Incorporated, Prudential Securities Incorporated, and Smith Barney Inc. are acting as representatives (the "Representatives"), has severally agreed to purchase from TVA, the principal amount of the 1996 Series A QIDS set forth opposite its name below:

| <u>Underwriter</u> | <u>Principal Amount</u> |
|---|-------------------------|
| Goldman, Sachs & Co. | \$ 44,500,000 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 44,500,000 |
| Dean Witter Reynolds Inc. | 43,750,000 |
| A.G. Edwards & Sons, Inc. | 43,750,000 |
| PaineWebber Incorporated | 43,750,000 |
| Prudential Securities Incorporated | 43,750,000 |
| Smith Barney Inc. | 43,750,000 |
| Bear, Stearns & Co. Inc. | 6,250,000 |
| Alex, Brown & Sons Incorporated | 6,250,000 |
| CS First Boston Corporation | 6,250,000 |
| Dillon, Reed & Co. Inc. | 6,250,000 |
| Donaldson, Lufkin & Jenrette Securities Corporation | 6,250,000 |
| EVEREN Securities, Inc. | 6,250,000 |
| Lehman Brothers Inc. | 6,250,000 |
| Morgan Stanley & Co. Incorporated | 6,250,000 |
| Oppenheimer & Co., Inc. | 6,250,000 |
| Salomon Brothers Inc | 6,250,000 |
| Schroder Wertheim & Co. Incorporated | 6,250,000 |
| UBS Securities LLC | 6,250,000 |
| Advest, Inc. | 1,750,000 |
| Arthurs, Lestrangle & Company Incorporated | 1,750,000 |
| Robert W. Baird & Co., Incorporated | 1,750,000 |
| BA Securities, Inc. | 1,750,000 |
| M.R. Beal & Company | 1,750,000 |
| William Blair & Company, L.L.C. | 1,750,000 |
| Blount Parrish & Roton, Inc. | 1,750,000 |
| J.C. Bradford & Co. | 1,750,000 |

| <u>Underwriter</u> | <u>Principal Amount</u> |
|--|-------------------------|
| JW Charles Securities, Inc. | \$ 1,750,000 |
| Commerce Investment Corporation | 1,750,000 |
| Commerzbank Capital Markets Corporation | 1,750,000 |
| Compass Bank | 1,750,000 |
| Cowen & Company | 1,750,000 |
| Craigie Incorporated | 1,750,000 |
| Credit Lyonnais Securities (USA) Inc. | 1,750,000 |
| Crowell, Weedon & Co. | 1,750,000 |
| Dain Bosworth Incorporated | 1,750,000 |
| Davenport & Co. of Virginia, Inc. | 1,750,000 |
| Equitable Securities Corporation | 1,750,000 |
| Fahnestock & Co. Inc. | 1,750,000 |
| Ferris, Baker Watts, Incorporated | 1,750,000 |
| First Albany Corporation | 1,750,000 |
| First American National Bank | 1,750,000 |
| First of Michigan Corporation | 1,750,000 |
| First Tennessee Bank N.A. | 1,750,000 |
| First Union Capital Markets Corp. | 1,750,000 |
| Furman Selz LLC | 1,750,000 |
| Gruntal & Co., Incorporated | 1,750,000 |
| J.J.B. Hilliard, W.L. Lyons, Inc. | 1,750,000 |
| Interstate/Johnson Lane Corporation | 1,750,000 |
| Janney Montgomery Scott Inc. | 1,750,000 |
| Josephthal Lyon & Ross Incorporated | 1,750,000 |
| Kennedy, Cabot & Co. | 1,750,000 |
| LaSalle National Bank | 1,750,000 |
| WR Lazard, Laidlaw & Luther, Inc. | 1,750,000 |
| Legg Mason Wood Walker, Incorporated | 1,750,000 |
| McDonald & Company Securities, Inc. | 1,750,000 |
| McGinn, Smith & Co., Inc. | 1,750,000 |
| Mesirow Financial, Inc. | 1,750,000 |
| Morgan Keegan & Company, Inc. | 1,750,000 |
| The Ohio Company | 1,750,000 |
| Olde Discount Corporation | 1,750,000 |
| Parker/Hunter Incorporated | 1,750,000 |
| Piper Jaffray Inc. | 1,750,000 |
| Principal Financial Securities, Inc. | 1,750,000 |
| Pryor, McClendon, Counts & Co., Inc. | 1,750,000 |
| Ragen MacKenzie Incorporated | 1,750,000 |
| Rauscher Pierce Refsnes, Inc. | 1,750,000 |
| Raymond James & Associates, Inc. | 1,750,000 |
| Redwood Securities Group, Inc. | 1,750,000 |
| The Robinson-Humphrey Company, Inc. | 1,750,000 |
| Roney & Co., LLC | 1,750,000 |
| Scott & Stringfellow, Inc. | 1,750,000 |
| Muriel Siebert & Co., Inc. | 1,750,000 |
| Stephens Inc. | 1,750,000 |
| Sterne, Agee & Leach, Inc. | 1,750,000 |
| Stifel, Nicolaus & Company, Incorporated | 1,750,000 |
| SunTrust Capital Markets, Inc. | 1,750,000 |
| Sutro & Co. Incorporated | 1,750,000 |
| Tilon International Inc. | 1,750,000 |
| Tucker Anthony Incorporated | 1,750,000 |
| U.S. Clearing Corp. | 1,750,000 |
| Utendahl Capital Partners, L.P. | 1,750,000 |
| Vining-Sparks IBG, L.P. | 1,750,000 |

| <u>Underwriter</u> | <u>Principal Amount</u> |
|---|-------------------------|
| Wedbush Morgan Securities | \$ 1,750,000 |
| Wheat, First Securities, Inc. | 1,750,000 |
| Yamaichi International (America), Inc. | 1,750,000 |
| Total | <u>\$500,000,000</u> |

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the 1996 Series A QIDS if any are purchased.

TVA has been advised by the several Underwriters that they propose to offer the 1996 Series A QIDS to the public at the initial public offering price set forth on the cover page of this Offering Circular and to certain dealers at such price less a concession not in excess of 2.0% of the principal amount of the 1996 Series A QIDS; that the Underwriters and such dealers may realow a discount not in excess of 1.4% of such principal amount on sales to certain other dealers; and that after the initial public offering, the public offering price and concession and discount to dealers may be changed by the Representatives.

TVA has granted the Underwriters an option exercisable for two business days after the date of this Offering Circular to purchase up to \$75,000,000 aggregate principal amount of additional 1996 Series A QIDS to cover over-allotments, if any, at the initial public offering price (less the Underwriting Discount), as set forth on the cover page of this Offering Circular. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the principal amount of 1996 Series A QIDS to be purchased by each of them, as shown in the foregoing table, bears to the \$500,000,000 principal amount of 1996 Series A QIDS offered hereby.

The 1996 Series A QIDS are a new issue of securities with no established trading market. The 1996 Series A QIDS have been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol "TVB". Trading of the 1996 Series A QIDS on the New York Stock Exchange is expected to commence within a thirty-day period after the initial delivery of the 1996 Series A QIDS. TVA has been advised by the Representatives that they intend to make a market in the 1996 Series A QIDS, but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the 1996 Series A QIDS.

TVA has agreed to indemnify the Underwriters against certain civil liabilities.

VALIDITY OF 1996 SERIES A QIDS

The validity of the 1996 Series A QIDS will be passed upon for TVA by Edward S. Christenbury, Esq., General Counsel of TVA, and for the Underwriters by Orrick, Herrington & Sutcliffe, 666 Fifth Avenue, New York, New York 10103.

* * * * *

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the 1996 Series A QIDS.

TENNESSEE VALLEY AUTHORITY

By: /s/ DAVID N. SMITH
David N. Smith
Chief Financial Officer

Dated April 19, 1996

INFORMATION STATEMENT

TENNESSEE VALLEY AUTHORITY

**A Wholly Owned Corporate Agency
and Instrumentality of the**

UNITED STATES OF AMERICA

The Tennessee Valley Authority ("TVA" or "Corporation") presents this Information Statement ("Statement") for the information of potential purchasers of its Power Bonds (the "New Power Bonds"), including its First Installment Series Bonds (the "Installment Bonds" — sometimes called "FISBS"), its Discount Notes and such other evidences of indebtedness ("Other Indebtedness") it may issue pursuant to the Act (as defined below). New Power Bonds are to be issued pursuant to authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the "Act") and the Basic Tennessee Valley Authority Power Bond Resolution adopted by the Board of Directors of TVA (the "Board") on October 6, 1960, as amended on September 28, 1976, October 17, 1989, and March 25, 1992 (the "Basic Resolution"). Discount Notes and Other Indebtedness are issued pursuant to the Act and their respective authorizing resolutions.

TVA may from time to time offer New Power Bonds and Other Indebtedness and may offer on a continuous basis Discount Notes for sale by direct placements or through selected investment dealers, dealer banks, underwriters, or underwriting syndicates as TVA deems appropriate. Information concerning particular offerings of New Power Bonds, Discount Notes or Other Indebtedness will be described in an appropriate offering circular and in any supplement thereto. This Statement, and any supplement hereto, should be read in conjunction with the offering circular and any supplement thereto for the particular New Power Bonds, Discount Notes or Other Indebtedness being offered.

This Statement will be updated by supplements or replaced from time to time to reflect annual financial results of the Corporation and as otherwise determined appropriate by the Corporation. Any provisions herein modified or superseded shall not be deemed, except as so modified, to constitute a part of this Statement. Additional copies of this Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

No salesperson, dealer or other person has been authorized to give any information or to make any representations not contained herein or in a specific offering circular or supplement approved by TVA, and, if given or made, such information or representation must not be relied upon as having been authorized by TVA. This Statement and any offering circular or supplement do not constitute an offer to sell or a solicitation of any offer to buy any of the New Power Bonds, Discount Notes or Other Indebtedness offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. The delivery of this Statement and any offering circular or supplement at any time does not imply that the information given herein or therein is correct at any time subsequent to its respective date.

THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS OF TVA WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF PRINCIPAL THEREOF OR ANY INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. PRINCIPAL AND INTEREST, IF ANY, WILL BE PAYABLE SOLELY FROM TVA'S NET POWER PROCEEDS AS HEREIN DEFINED. THE NEW POWER BONDS, DISCOUNT NOTES, AND OTHER INDEBTEDNESS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN, AND NONE WILL BE, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

This Statement describes the business and operations of TVA as of its date and the financial condition of TVA as of the date of the financial statements included herein. Recipients of this Statement should retain it for future reference until such time as a subsequent Statement is made available by TVA, but delivery or retention of this Statement after the date hereof shall not create any implication that the information provided herein is correct at any time after the date hereof.

The date of this Information Statement is March 20, 1996.

TABLE OF CONTENTS
Information Statement

| | <u>Page</u> |
|---|-------------|
| The Tennessee Valley Authority | 1 |
| Selected Financial Data | 2 |
| Management’s Discussion and Analysis of Financial Condition and Results of Operations | 3 |
| The Area Supplied by TVA | 4 |
| Rates, Customers and Market | 5 |
| Competition | 6 |
| Power and Energy Requirements | 7 |
| Capital Expenditures | 7 |
| Power System | 7 |
| Nuclear Power Program | 9 |
| Environmental Matters | 13 |
| Insurance | 15 |
| Management | 16 |
| Employees | 17 |
| Certain Provisions of the Tennessee Valley Authority Act | 17 |
| The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness | 18 |
| Independent Accountants | 25 |
| Financial Statements | F- 1 |
| Report of Independent Accountants | F-18 |
| Report of Management | F-19 |
| Comparative Five-Year Data | F-20 |

THE TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States established by the Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense.

TVA's programs fall into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Additional funds are obtained for financing certain nonpower activities from various revenues and user fees associated with nonpower activities. Congress appropriated \$143 million for TVA's nonpower programs in fiscal year 1995, which was reduced by a \$5 million rescission by action of Congress in July 1995. TVA has received \$109 million in congressional appropriations for fiscal 1996. The power program is required to be self-supporting from revenues it produces and capital it raises in the public markets. Financial accounts for the two types of TVA activities — power and nonpower — are kept separately. Proceeds from the sale of TVA's New Power Bonds, Discount Notes, and Other Indebtedness (collectively "Evidences of Indebtedness") may be used only for the power program.

TVA is authorized by the Act to issue Evidences of Indebtedness to assist in financing its power program in an amount not exceeding \$30 billion outstanding at any one time. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness".

Congress has reserved the right to alter, amend or repeal the Act, but has provided that no amendment or repeal shall operate to impair the obligation of any contract made by TVA in the exercise of any power conferred by the Act.

TVA is administered by the Board, which is composed of three persons appointed by the President and confirmed by the Senate. Appointments are for nine-year staggered terms with one term expiring with each three-year interval. The Board has sole authority for determining the rates which TVA charges for power. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the U.S. Treasury (the "Treasury") in repayment of and as a return on the government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness". Such appropriation investment totaled \$628 million as of September 30, 1995. See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury".

TVA is required annually to file with the President and with the Congress a financial statement and a complete report as to the business of the Corporation. The Comptroller General of the United States is authorized to periodically audit the transactions of TVA.

Under certain conditions, TVA may borrow from the Treasury up to \$150 million for a period of one year or less. Any issuance by TVA of Evidences of Indebtedness with a term of one year or longer is subject to the approval of the Secretary of the Treasury as to the issue date and maximum interest rate. The borrowing authority of TVA is treated as budget authority by the Office of Management and Budget for purposes of the budget of the United States.

Income on Evidences of Indebtedness issued by TVA is subject to various federal tax consequences. Under the Act, Evidences of Indebtedness are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes.

SELECTED FINANCIAL DATA

The following selected financial data of TVA's power program for the fiscal years 1991 through 1995 have been summarized or derived from TVA's audited financial statements. These data should be read in conjunction with the audited financial statements and notes thereto presented elsewhere herein.

Condensed Statements of Income (Dollars in Millions)

| | Fiscal Year Ended September 30 | | | | |
|--|--------------------------------|---------------|---------------|---------------|---------------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| Operating Revenues | \$ 5,375 | \$ 5,401 | \$ 5,276 | \$ 5,065 | \$ 5,136 |
| Operating Expenses | 3,448 | 3,461 | 3,269 | 3,198 | 3,047 |
| Operating Income | 1,927 | 1,940 | 2,007 | 1,867 | 2,089 |
| Other Income and Expense, Net | (91) | (59) | 23 | (87) | 24 |
| Income Before Interest Charges | 1,836 | 1,881 | 2,030 | 1,780 | 2,113 |
| Interest Expense | 2,024 | 1,853 | 1,777 | 1,695 | 1,677 |
| Allowance for Funds | | | | | |
| Used During Construction | (198) | (123) | (58) | (35) | (73) |
| Net Interest Charges | 1,826 | 1,730 | 1,719 | 1,660 | 1,604 |
| Income before cumulative effect of accounting change | 10 | 151 | 311 | 120 | 509 |
| Cumulative effect of postretirement benefits change | — | — | — | — | (223) |
| Net Income | <u>\$ 10</u> | <u>\$ 151</u> | <u>\$ 311</u> | <u>\$ 120</u> | <u>\$ 286</u> |
| Ratio of Earnings to Fixed Charges(1) | 1.01 | 1.08 | 1.18 | 1.07 | 1.17 |

Condensed Balance Sheet (Dollars in Millions)

| | September 30 | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| Assets | | | | | |
| Current Assets | \$ 1,088 | \$ 1,025 | \$ 1,434 | \$ 1,724 | \$ 1,816 |
| Property, Plant, and Equipment | 29,301 | 28,071 | 27,888 | 24,893 | 23,871 |
| Investment Funds | 260 | 150 | — | 188 | 170 |
| Deferred Charges and Other Assets | 2,644 | 2,596 | 1,601 | 2,514 | 2,164 |
| TOTAL ASSETS | <u>\$33,293</u> | <u>\$31,842</u> | <u>\$30,923</u> | <u>\$29,319</u> | <u>\$28,021</u> |
| Liabilities and Proprietary Capital | | | | | |
| Current Liabilities | \$ 5,416 | \$ 4,591 | \$ 4,942 | \$ 3,372 | \$ 2,813 |
| Other Liabilities | 1,264 | 963 | 1,034 | 2,993 | 3,127 |
| Long-Term Debt(2) | 22,583 | 22,206 | 20,954 | 19,204 | 18,374 |
| Proprietary Capital | 4,030 | 4,082 | 3,993 | 3,750 | 3,707 |
| TOTAL LIABILITIES AND PROPRIETARY CAPITAL | <u>\$33,293</u> | <u>\$31,842</u> | <u>\$30,923</u> | <u>\$29,319</u> | <u>\$28,021</u> |

(1) Ratio of Earnings to Fixed Charges (unaudited) is calculated by dividing Net Income plus Interest Expense by Interest Expense.

(2) See Note 6 of "Notes to Financial Statements" in the Financial Statements with respect to defeased debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Operating Environment

The financial results for 1995 are indicative of the challenges facing the electric-utility industry in general and TVA in particular. Net income for 1995 was \$10 million as compared with \$151 million for 1994 and \$311 million for 1993. One of the primary reasons for the decrease in net income was a one-time \$136-million nonoperating charge for a voluntary early-out package accepted by about 2,500 employees in fiscal year 1995. The current year expense associated with this early-out package was significant; however, this action, along with TVA's ongoing control of operating and financing costs, is reflective of TVA's commitment to reduce the cost of producing electricity.

For 1994, TVA had a charge of \$140 million for the exchange of certain uranium assets. Amortization expense was increased by \$126 million due to a reclassification of a portion of the capitalized interest component of nuclear fuel to other deferred charges. TVA also recognized a gain of \$82 million from the sale of securities in September 1993. See Notes 1 and 2 of "Notes to Financial Statements" in the Financial Statements.

TVA has continued to increase generation and sales over the past eight years even though the number of employees has decreased. Sales have increased from about 108-billion kilowatt-hours ("kWh") in 1987 to about 134-billion kWh in 1995. This increase in kWh sales is due in part to TVA's ability to maintain competitive rates. Rates have not risen in over nine years. In fact, because of economic pricing programs developed for industrial customers, average electric revenue per kWh has steadily declined from 47.2 mills per kWh in 1987 to 39.4 mills per kWh in 1995.

Operating Revenues

Operating revenue was \$5,375 million in 1995 as compared to \$5,401 million in 1994 and \$5,276 million for 1993. The \$26-million decrease was primarily due to the inclusion of a \$160-million contract-termination settlement payment in the 1993 and 1994 revenue. See Note 9 of "Notes to Financial Statements" in the Financial Statements. Excluding this 1994 payment, operating revenue increased \$134 million between 1995 and 1994. This increase was primarily due to an increase in kWh sales of approximately 6 billion (5 percent), from 128 billion in 1994 to 134 billion in 1995. The increase in kWh sales for 1995 resulted from growth within the municipalities and cooperatives and federal agencies segments. The increase in kWh sales, however, was offset by a decrease in the revenue per kWh of approximately 1 mill (2.2 percent) from 40.3 mills in 1994 to 39.4 mills in 1995. The decrease in revenue per kWh was primarily due to a change in sales mix and continued economic-pricing options for customers.

The increase in kWh sales was approximately 4 billion (3 percent), from 124 billion in 1993 to 128 billion in 1994. The impact of mild summer temperatures in 1994 was offset by overall sales growth of 3.4 percent. This growth was due to a contractual change with another federal agency and an overall growth in municipality and cooperative sales. A winter peak demand record of 24,723 megawatts ("MW") was set January 18, 1994, when temperatures were in single digits.

Operating Expenses

Operating expenses for fiscal 1995 were \$3,448 million, compared with \$3,461 million for 1994 and \$3,269 million for 1993. Fuel and purchased power expenses were \$1,443 million for 1995 compared with \$1,493 million for 1994 and \$1,401 million for 1993.

In 1995, fuel and purchased-power expense decreased \$50 million or 3 percent from 1994. However, excluding a change in methods of accounting for nuclear fuel (see explanation below), fuel and purchased-power expense increased \$38 million or 2.7 percent due to a 4.2 percent increase in kWh generated. Fuel costs did not increase in proportion to generation, primarily due to favorable coal prices.

The 1994 operating expenses included about \$88 million of nuclear fuel expense, which was excluded from the 1995 operating expenses due to a determination at the end of 1994 that the excess capitalized interest portion of nuclear fuel should be reclassified from nuclear fuel inventory to other deferred charges and amortized on a straight-line basis over an eight-year period. See Notes 1 and 2 of “Notes to Financial Statements” in the Financial Statements.

Operating and maintenance costs decreased \$31 million from \$1,081 million in 1994 to \$1,050 million in 1995. The decrease was primarily due to reduced labor expense resulting from the voluntary early-out package exercised by employees during fiscal year 1995.

Depreciation and amortization expense was \$703 million and \$639 million in 1995 and 1994 respectively. The increase during 1995 of \$64 million was primarily due to depreciation on about \$1.7 billion of construction projects that were completed and placed in service during 1995.

The 1994 operating expenses, compared with 1993, increased \$192 million. The increase was primarily attributable to an increase in depreciation and amortization from the amortization of deferred charges, additions to completed plant, and an increase in the composite depreciation rate.

Financial Condition

Liquidity and Capital Resources

TVA’s power program is required to be self-supporting from revenues it produces and capital it raises in public markets. As the TVA Act does not authorize TVA to issue equity securities, TVA raises its capital requirements through the internal generation of funds or through borrowings subject to a congressionally mandated \$30-billion limit. Historically, TVA has accessed both the federal and public bond markets; since 1989, all capital needs have been met through issuances in the public sector.

The 1996 expected completion of Watts Bar Unit One and the restart of Browns Ferry Unit Three will significantly reduce TVA’s future capital requirements. The planned reduction in capital expenditures has led TVA to self-impose an internal debt ceiling of about \$28 billion. During 1995 and 1994, TVA generated cash flow from operations of \$802 million and \$1,144 million respectively. The decrease in cash flow from operating activities of \$342 million from 1994 to 1995 was primarily due to a \$141-million reduction in net income in 1995 and fewer noncash expenses totaling \$208 million. New borrowings are estimated to be \$650 million for fiscal 1996 and \$100 million for fiscal 1997. Borrowings for subsequent years are dependent upon the level of capital expenditures and are under review by the Board. For capital requirements met by internally generated funds, see “Statements of Cash Flows” in the Financial Statements.

Financing Activities

Long-term debt and cash from operations are used to finance capital expenditures. Short-term debt and cash from operations are used to manage daily cash needs. In 1995 TVA issued \$3.5 billion in long-term bonds. Of the proceeds from the 1995 offerings, \$2.5 billion were primarily used to refinance existing debt and \$1 billion was used to finance capital expenditures.

The expected reduction in capital expenditures, the self-imposed debt limit, and the expanding borrowing base will allow TVA to continue to effectively manage its capital requirements for the foreseeable future.

THE AREA SUPPLIED BY TVA

TVA supplies power in most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky, and in small portions of Georgia, North Carolina and Virginia. The population of the area served by TVA is over 7 million. Subject to certain minor exceptions, TVA may not without specific authorization by Act of Congress enter into contracts which would have the effect of making it or its distributors a source of power supply outside the area for which TVA or its distributors were the primary source of power supply on July 1, 1957.

TVA is primarily a wholesaler of power. Its customers are composed of three major groups: (1) distributors, consisting of municipal and cooperative systems; (2) industries which have large or unusual loads; and (3) federal agencies. In addition, TVA has entered into exchange power arrangements with most of the surrounding electric systems.

RATES, CUSTOMERS AND MARKET

The Act delegates to the Board sole responsibility for establishing the rates which TVA charges and authorizes it to include in power contracts such terms and conditions as in its judgment may be necessary or desirable for carrying out the purposes of the Act. The Act requires the Corporation to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding Evidences of Indebtedness, including provision and maintenance of reserve funds and other funds established in connection therewith; and annual payments to the Treasury in repayment of and as a return on the Government's appropriation investment in TVA power facilities. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant". Rates set by the Board are not subject to review or approval by any state or federal regulatory body.

A summary of power program operating revenues by customer groups for each of the last five fiscal years ended September 30 is shown in the Comparative Five-Year Data, presented on page F-20.

Municipal and Cooperative Distributors

TVA has entered into wholesale power contracts with 160 municipal and cooperative distributors. Such contracts are for terms of 20 years, require distributors to purchase substantially all of their electric power and energy requirements from TVA, and (except for those with two small distributors, providing less than one percent of revenues) require 10 years' notice to terminate the contract and further provide that on each annual anniversary of the contract (beginning with the tenth anniversary) one additional year is automatically added to the term. The remaining two small distributors continue to operate under the original term provisions. Municipal and cooperative distributors accounted for approximately 88 percent of total power revenues in fiscal 1995.

The contracts contain standard provisions specifying the wholesale rates, resale rates and terms and conditions under which the power is to be distributed. Under the contracts, TVA, on a quarterly basis, may determine and make adjustments in the wholesale rate schedule with corresponding adjustments in resale rate schedules necessary to enable TVA to meet all requirements of the Act and the tests and provisions of its bond resolutions. In addition, the contracts provide for agreement between the parties on general or major changes in both the wholesale and resale rate schedules, and permit TVA, if agreement is not reached, to make changes in such schedules to carry out the objectives of the Act, to meet financial requirements and tests, and to comply with the provisions of its bond resolutions.

The resale rates under which the distributors serve ultimate consumers are stipulated in the power contracts between the distributors and TVA and are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. They are designed to promote the Act's objective of providing an adequate supply of power at the lowest feasible rates.

Industries and Federal Agencies Served Directly

Contracts with industries served directly by TVA normally are for terms of 10 years but are subject to termination by TVA or the customer upon a minimum notice period that varies according to the customer's contract demand and the period of time service has been provided at that location. Industries directly served accounted for approximately 9 percent of power revenues in fiscal 1995. The power sold directly to industries is delivered under contracts at rates established by TVA. Such rates are the same as those charged by distributors to large industries (those with demand greater than 25,000 kilowatts ("kW")) they serve. Power is sold to federal agencies under the same contract terms and rates as directly served industries.

COMPETITION

The electric utility industry has become increasingly competitive in the past decade. Competition is expected to intensify in the future as a result of federally encouraged deregulation of utilities affecting the wholesale power markets and various provisions of the Energy Policy Act of 1992 ("Energy Act"). Chief among the provisions of this act which will further intensify the competitive environment are amendments (1) to the Federal Power Act that give the Federal Energy Regulatory Commission ("FERC") greater authority to order electric utilities with transmission lines to wheel (transmit) power over their systems for electric power generating entities; and (2) to the Public Utility Holding Company Act of 1935 that allow the creation of certain kinds of power generating entities without the entities or their parent corporations being made subject to regulation by the Securities and Exchange Commission under that act.

Nevertheless, a special provision in the Energy Act prevents the new wheeling authority of the FERC from being used to provide TVA-served municipal and cooperative distributors with an alternative source of power supply. That provision excludes from the new wheeling authority the wheeling of electric energy that will be consumed within the area served by TVA and the distributors (except for Bristol, Virginia).

Although other power suppliers, under certain circumstances, may sell power in the area where TVA power is distributed, there are statutory provisions restricting TVA from expanding the area in which it is a source of power supply. It is important that TVA market power at rates competitive with other suppliers in the region. TVA believes that its nine years of stable rates have assisted distributors of TVA power in competing for new commercial and industrial loads.

In today's competitive environment, some of the municipal and cooperative distributors may consider alternative wholesale supply arrangements upon expiration or termination of their power contracts with TVA. Two distributors, representing one percent of TVA revenues, have provided TVA with notices of power contract termination to permit them to study alternative power supply arrangements. One of these distributors, 4-County Electric Power Association, has subsequently brought litigation seeking to obtain participation in TVA's Growth Credit Program. An alternative mentioned in the complaint is that the distributor could be released from its power contract. In TVA's opinion, there is little likelihood that the distributor will prevail in this case.

TVA's management is developing plans and strategies that will position TVA to successfully compete in a deregulated electricity market both within the Tennessee Valley and nationwide.

In April 1995, Palmer Bellevue, a consultant serving the electric utility industry, issued a report on TVA's competitive position. This report concludes that TVA is well positioned to meet competitive challenges as the electric utility industry prepares for future deregulation and that TVA's capital structure supports a comparable level of generating assets compared to investor-owned utility competitors. In August 1995, U.S. General Accounting Office ("GAO") issued a report which, among other things, focused on TVA's level of debt, rates, competitive position and deferred nuclear assets. The report raises the issue of whether TVA will be able to recover all the costs of its deferred nuclear assets and the financial and competitive impact this would have. While the GAO is authorized to assist the Congress by evaluating government programs and activities and may make recommendations in this regard, it has no authority to order or direct that any action be taken. The report relating to TVA does not make any specific recommendations. TVA furnished to GAO a detailed response as to why the report is flawed in its analysis. GAO included TVA's response in the report appendix.

The Chairman of the Board has publicly commented that, in view of the approaching deregulation of the electric power industry and an era of open-market competition, TVA is looking into the expansion of services offered and a broadening of the area it serves. He pointed out that careful consideration would be given before proposing any specific legislation for removing TVA's territorial limitations. In preparation for meeting competition in the changing electric utility industry, the Chairman also has called for an examination by the TVA staff of TVA's relationship with 160 distributors of TVA power. He has asked that a number of items be examined, including whether alternative contractual arrangements relating to services and pricing structures should be developed, in preparing for an entirely new operating environment.

POWER AND ENERGY REQUIREMENTS

TVA prepares annual forecasts of future power and energy requirements as part of its planning and budgeting process. TVA's forecast procedure involves producing a range of load forecasts for the explicit purpose of bounding the range of uncertainty associated with load growth. The load forecasts are produced probabilistically. TVA believes that the high load forecast has a 90 percent probability that actual load will be less than forecast, that the medium load forecast has a 50 percent probability that actual load will be less than forecast, and that the low load forecast has a 10 percent probability that actual load will be less than forecast. TVA's current load forecast through fiscal year 2000 reflects an average annual load growth rate of 3.4 percent, 2.2 percent, and 0.0 percent for the high, medium, and low load forecasts, respectively. TVA's total system energy requirements through fiscal year 2000 reflects an average annual growth rate of 4.1 percent, 2.6 percent, and 0.2 percent for the high, medium, and low load forecasts, respectively.

Various provisions in the Energy Act make changes in a wide range of laws affecting energy use and development in the United States. In addition to various other features, some of which are discussed herein, this act establishes a statutory framework for how TVA plans and selects methods for meeting future energy needs.

CAPITAL EXPENDITURES

Cash required by TVA for capital expenditures totaled \$1.7 billion, \$2.0 billion and \$2.1 billion for fiscal years 1995, 1994 and 1993, respectively. TVA's current forecast for capital expenditures totals \$1.1 billion for fiscal year 1996 and \$900 million for each of fiscal years 1997 and 1998. TVA estimates that it will borrow approximately \$650 million for fiscal year 1996 and \$100 million in 1997.

TVA's construction program and related expenditures are continuously reviewed and periodically revised because of changes in estimated system load growth, rates of inflation, nuclear licensing requirements and schedules, the availability and timing of environmental, siting and other regulatory approvals, the scope of modifications required by regulatory agencies, including the Nuclear Regulatory Commission (the "NRC"), the availability and costs of external sources of capital and other factors beyond TVA's control. See "Nuclear Power Program" for assumed nuclear plant startup dates used for planning purposes.

POWER SYSTEM

TVA's power generating facilities at December 31, 1995, included 29 hydroelectric plants, 11 coal-fired plants, 2 nuclear plants, 1 pumped storage hydroelectric plant and 4 gas turbine plants. Power is delivered to TVA customers over a transmission system of approximately 16,800 miles of lines, including 2,400 miles of extra-high-voltage (500,000 volt) transmission lines. The system interconnects with neighboring power systems at numerous points, and TVA has various types of interchange arrangements with these systems. The extent and types of interchange transactions depend upon the characteristics of the systems' loads, the management policies of the systems and other factors. Interchange arrangements are an essential part of TVA's efforts to minimize investment in electrical facilities, increase the reliability of service, effect operating economies and minimize the cost of electric energy. Three subsidiaries of The Southern Company, which have interchange arrangements with TVA, have filed suit asking the court to prohibit TVA from contracting to sell or deliver electric power to LG&E Power Marketing, Inc., or to any other entities, whereby such electric power would be utilized by those organizations to facilitate electric power transactions they may have with others located outside the area that TVA serves under the TVA Act. In TVA's opinion, transactions under interchange arrangements with LG&E Power Marketing, Inc., and with other organizations with which TVA has such contractual arrangements, are authorized under the TVA Act, and there is little likelihood that plaintiffs will prevail in this case.

During the fiscal year ended September 30, 1995, 71 percent of the power generated by the TVA coordinated system was by fossil fired plants, 12 percent by hydro, and 17 percent by nuclear. Coal consumption during this time was 39.3 million tons. Coal is purchased under contracts ranging from a single delivery to deliveries over several years. Management believes the sources and availability of fuel materials

essential to its business should be adequate for the foreseeable future. TVA coal inventory levels vary from plant to plant based upon a simulated inventory model. As of September 30, 1995 TVA had approximately 18 days' coal supply in inventory at full burn.

TVA's power system is one of the largest in the Nation in capacity and in energy production. Its size permits the construction of large facilities which result in lower unit costs. Most of TVA's dams were completed years ago when construction costs were far below present-day levels. Because most of the dams are multipurpose, their cost is shared by navigation, flood control, recreation and local economic development, as well as by power; thus, each purpose is served at a substantially lower cost than if the dams had been built for a single purpose.

A bill has been introduced in the Senate which would eliminate the permanent authorization of TVA's appropriations and would require the development of a plan describing which TVA programs should be continued, discontinued, or transferred. Another bill has been introduced in the House of Representatives which would direct the President to develop a plan for transferring all TVA property to public or private entities. This is the same bill which was introduced in the last Congress and died without any action. Neither bill was scheduled for hearings or other congressional consideration in the first session of this Congress. Enactment of either of these, or of similar bills, is considered highly unlikely. The President's proposed budget for fiscal year 1996 recommended the privatization of four Department of Energy power marketing administrations, but it did not recommend any privatization actions for TVA. Congress decided not to take action on the President's or other proposals to privatize the power marketing administrations or their Corps of Engineers water projects.

Generating Resources

The following table summarizes the winter net dependable capacity ("NDC") on this coordinated system as of December 31, 1995:

| | Generating Units | Winter NDC MW(1) |
|--------------------------------------|---------------------|------------------------|
| TVA Hydro Plants | 109 | 2,970 |
| TAPOCO Hydro Plants | | 318 |
| Corps of Engineers Hydro Plants..... | — | 405(2) |
| TVA Pumped Storage Facility..... | 4 | <u>1,532</u> |
| Total Hydro | | 5,225 |
| Coal | 59 | 15,032 |
| Nuclear | 4 | 4,407 |
| Combustion Turbine | 48 | <u>2,232</u> |
| Total NDC | | <u><u>26,896</u></u> |

-
- (1) NDC as stated is the net power output which can be obtained for a period adequate to satisfy the daily load patterns under expected conditions of winter operation with equipment in an average state of maintenance. For planning purposes, TVA currently estimates summer dependable total hydro capacity of approximately 5,666 MW; coal-fired capacity of approximately 14,685 MW; nuclear power capacity of approximately 4,347 MW; and combustion turbine capacity of approximately 1,936 MW, for a total summer NDC of approximately 26,634 MW.
 - (2) The Corps of Engineers' plants on the Cumberland River System have a total installed capacity of 853 MW, of which 405 MW of NDC is available to TVA under a marketing agreement with Southeastern Power Administration.

Under arrangements among TVA, the United States Corps of Engineers (the "CORPS") and the Southeastern Power Administration (the "SEPA"), 8 hydro plants of the CORPS comprising the Cumberland River system are operated in coordination with the TVA system. These arrangements further provide for

capacity (405 MW) and energy from the Cumberland River system to be supplied to TVA by SEPA at the points of generation, and the price paid for the power to be based on the operating and maintenance expenses and amortization of the power facilities. A portion of the output of the Cumberland River system is also made available to SEPA's customers outside the TVA region. The agreement with SEPA covering these arrangements for power from the Cumberland River system can be terminated upon three years' notice.

Integrated Resource Plan

In 1993 TVA began development of an Integrated Resource Plan ("IRP") to be utilized in determining its strategy for meeting future customer energy demands. TVA initiated the IRP process in February 1994 and released a draft plan for public comment in July 1995. The IRP was completed in December 1995 and has been approved by the Board. It identifies a 25-year least-cost energy resource strategy for TVA's power system. TVA's IRP strategy relies on a portfolio of energy resource options that made up the best seven energy resource strategies evaluated for the TVA power system. These strategies performed well across all of the IRP evaluation criteria including debt, rates, costs, reliability, and environmental impacts. These options provide TVA the flexibility to respond to forecasted future demands on the system of 16,500 MW in a manner that maintains and enhances its competitive position. Included in the portfolio are customer service options (*e.g.* energy conservation, load management, beneficial electrification) and supply side options (the purchase of call options which give TVA the right to purchase power from other power producers in the future, the investigation and use of renewable energy technologies such as cost-effective biomass and wind turbines, and combined-cycle repowering of some existing coal-fired units). Other IRP results are set forth in the "Nuclear Power Program" section.

NUCLEAR POWER PROGRAM

Overview

TVA began an ambitious nuclear plant construction program in 1966 to meet projected system load growth. At the height of the construction program, TVA had 17 nuclear units either under construction or in commercial operation at seven plant sites. Between 1982 and 1984 TVA canceled construction of eight units because of lower-than-expected load growth. Total investment in the eight units at the time of cancellation was \$4.6 billion. Almost all of this amount had been written off by September 30, 1990.

In 1985, TVA delayed completion of its Watts Bar units and shut down its Browns Ferry and Sequoyah units because of an increasing number of technical and operation problems. Construction activities at TVA's Bellefonte Unit Two and Unit One were deferred in 1985 and 1988, respectively, due to reductions in forecasted load growth. After making extensive changes and improvements to the plants and restructuring its management organization, TVA returned Sequoyah Units One and Two to commercial operation in 1988, Browns Ferry Unit Two to commercial operation in 1991 and Browns Ferry Unit Three to commercial operation in January 1996, and anticipates bringing Watts Bar Unit One to commercial operation later in 1996. Completion activities at Browns Ferry Unit One, Watts Bar Unit Two and Bellefonte Units One and Two have been suspended.

Because of extensive regulatory requirements and the resulting delays which are often very lengthy, estimates of the cost to complete nuclear plants have typically been unreliable. No assurance can be given that the cost estimates discussed below would not be changed significantly.

Sequoyah

Sequoyah is a two-unit plant located approximately 7.5 miles northeast of the city limits of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. The units are rated at 1,141 and 1,136 MW net electrical output for Unit One and Unit Two, respectively. TVA received an Operating License for Unit One in 1980, and the unit began commercial operation in 1981. TVA received an Operating License for Unit Two in 1981, and the unit began commercial operation in 1982. The Operating

Licenses expire 40 years after issuance. The plant was designed, built and is operated by TVA. TVA voluntarily shut down both units in 1985 in response to technical and operational concerns.

Both Sequoyah units returned to commercial operation in 1988 and were removed from the NRC's list of plants that require close monitoring in 1989. Since their return to service in 1988 Sequoyah Units One and Two have recorded a 64.0 percent and 66.5 percent equivalent availability through September 1994 and a 66.9 percent and 68.2 percent equivalent availability through September 1995. The "equivalent availability" is the ratio of the energy a unit could have generated, if called on, to the energy the unit would have produced if it had run at full load over the entire period, expressed as a percentage.

Browns Ferry

Browns Ferry is a three-unit plant located approximately 10 miles southwest of Athens, Alabama, with boiling water reactors supplied by General Electric Company. Each unit is rated at 1,065 MW net electrical output. The plant was designed, built and is operated by TVA. TVA received Operating Licenses for Units One, Two, and Three in 1973, 1974 and 1976, respectively. They began commercial operation in 1974, 1975 and 1977, respectively. The Operating Licenses for these units expire 40 years after issuance. Units One, Two and Three were voluntarily shut down by TVA in 1985 in response to technical and operational concerns.

Browns Ferry Unit Two was returned to commercial operation in 1991 and was removed from the NRC's list of plants requiring continued close monitoring in 1992. Since its return to service in 1991 Browns Ferry Unit Two has recorded a 79.9 percent equivalent availability factor through September 1994 and an 80 percent equivalent availability through September, 1995.

Browns Ferry Unit Three was restarted in November 1995 and returned to commercial operation in January 1996. Browns Ferry Unit Three will remain on the NRC's list of plants that require close monitoring until a period of sustained successful performance is achieved.

Browns Ferry Unit One has been idled since March 1985. Major modifications are required to bring the plant to current standards. Total investment in Unit One at September 30, 1995, was \$700 million, including capitalized interest. Preliminary cost estimates indicate that cost associated with returning Unit One to service would be between \$1.2 and \$3.2 billion at September 30, 1995. See "Nuclear Completion Schedules and General Needs" for discussion of the status of Browns Ferry Unit One.

Watts Bar

Watts Bar is a two-unit power plant located approximately 50 miles northeast of Chattanooga, Tennessee, with pressurized water reactors supplied by Westinghouse Electric Corporation. Each unit is rated at 1,160 MW net electrical output. The plant was designed and has been built to its present level of completion by TVA. The Construction Permit for Unit Two expires in December 1999.

Although physical construction of Watts Bar Unit One was substantially complete in 1985, efforts to obtain an operating license were delayed due to numerous safety concerns expressed by Watts Bar workers. TVA performed a series of evaluations and developed comprehensive corrective actions to address all safety concerns. Overall plant design was reverified and extensive plant modifications were made to ensure that the plant was designed and constructed in accordance with regulatory requirements and TVA's commitments.

Hot functional testing of Watts Bar Unit One began April 1, 1994 and on May 15, 1994, the generator was synchronized to the power system and supplied five MWs of power to TVA customers for a short period of time. Unresolved items from the 1994 hot functional testing were resolved during additional testing completed in August 1995. In November 1995, the NRC granted a license authorizing TVA to load fuel in Unit One and begin operations up to five percent of rated power. In February 1996, the NRC granted Unit One a license to operate at full power. TVA intends to begin commercial operation in calendar year 1996. Total investment in Unit One at September 30, 1995, was \$6.9 billion, including capitalized interest. Anticipated cost to begin commercial operation is currently estimated to be \$150 million, excluding capitalized interest. Assurance cannot be given that this estimate will not be changed significantly.

In 1988, TVA suspended construction activities at Watts Bar Unit Two because of a reduction in the forecasted load growth. Total investment in Unit Two at September 30, 1995, was \$1.7 billion, including capitalized interest. Preliminary cost estimates indicate that cost associated with returning Unit Two to service would be between \$1.1 and \$2.9 billion at September 30, 1995. See “Nuclear Completion Schedules and General Needs” for discussion of the status of Unit Two.

Bellefonte

Bellefonte is a two-unit power plant located approximately 59 miles southwest of Chattanooga with pressurized water reactors supplied by Babcock & Wilcox Company (“B&W”) rated at 1,212 MW net electrical output each. The plant was designed and has been built to its present level of completion by TVA. Construction Permits were obtained from the NRC for both units in December 1974.

TVA deferred construction activities on Unit Two at Bellefonte because of a reduction in forecasted load growth in October 1985. Construction activity was deferred on Unit One in July 1988, and TVA notified the NRC of this action in accordance with the NRC’s October 1987 Policy Statement on Deferred Nuclear Plants. On March 23, 1993, in accordance with guidance in the NRC’s policy statement, TVA notified the NRC of its plans to resume completion activities at Bellefonte. Construction Permits for Unit One and Unit Two have been extended by the NRC to 2001 and 2004, respectively.

As of September 30, 1995, TVA had \$4.6 billion, including capitalized interest, invested in these units. See “Nuclear Completion Schedules and General Needs” for discussion of Bellefonte’s current status. Preliminary cost estimates indicate that cost associated with completing the Bellefonte units would be between \$1.3 and \$3.5 billion for Unit One and \$900 million and \$2.4 billion for Unit Two at September 30, 1995.

Nuclear Completion Schedules and General Needs

Recent preliminary cost estimates, utilizing the IRP (see “Power System” — “Integrated Resource Plan”), show that completing the units at Bellefonte and Watts Bar Unit Two could cost between \$3.3 and \$8.8 billion, which indicates that their completion may not be economically feasible. As a result, the Board in December 1994 announced a major change in policy declaring that TVA will not, by itself, complete Bellefonte Units One and Two and Watts Bar Unit Two as nuclear units. TVA’s IRP identified as a viable option the conversion of the Bellefonte facility to a combined cycle plant utilizing natural gas or gasified coal. A feasibility study performed by an outside team of technical and financial experts is expected to be completed in early 1997. With implementation of the IRP the TVA Board will consider alternatives, including converting the units to another fuel source or completing them with a partner. The IRP also concluded that Watts Bar Unit Two should remain in deferred status until completion of the Bellefonte study. In addition, the IRP recommended that Browns Ferry Unit One continue in its inoperative status. The impact on TVA’s financial position of completing, converting, or joint venturing these units will be determined upon completion of the Bellefonte study.

At September 30, 1995, TVA’s total investment in Bellefonte Units One and Two, Watts Bar Unit Two and Browns Ferry Unit One (including nuclear fuel) was \$6.3 billion. The future decisions on these units will ultimately impact the method of cost recovery, and the TVA Board has determined that it will, at that time, establish rate adjustments and operating policies to ensure full recovery of the cost of these units and compliance with the requirements of the TVA Act.

Nuclear Fuel

TVA owns all nuclear fuel held for its nuclear units (operating, under construction, and deferred). The net book value of such fuel was \$957 million as of September 30, 1995. See Notes 1 and 2 of “Notes to Financial Statements” in the Financial Statements. TVA currently has sufficient inventory to last until 1999.

TVA’s investment in the fuel being used in the Sequoyah units and Browns Ferry Unit Two is being amortized and accounted for as a fuel expense. The Bellefonte initial cores have been defabricated. The

uranium from these cores is being used in the Sequoyah and Browns Ferry units and will continue to be used in these units in the near future and the net book value will be assigned accordingly.

Nuclear Waste

Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 (the “NWPA”) provides that the federal government has the responsibility for the permanent disposal of spent nuclear fuel, but charges each nuclear power system with the responsibility for the cost of such permanent disposal. The NWPA requires each nuclear power system to enter into a disposal contract with DOE for such material. The contract requires each nuclear power system to pay a fee which is currently one mill per kWh for the net electricity generated and sold by each of its reactors. TVA’s spent fuel efforts will ensure that sufficient cost-effective at-reactor storage is available to meet all of TVA’s spent fuel storage requirements until DOE is prepared to accept TVA’s spent fuel.

TVA presently has the capability to store its spent fuel at Sequoyah and Browns Ferry through the years 2004 and 2007, respectively. Based on a one unit operation, Watts Bar storage capability will be sufficient until 2018. TVA plans to extend storage capability through life-of-plant by using higher density racks in its existing storage pools, fuel rod consolidation or dry storage casks.

Low-Level Radioactive Waste

Disposal costs for low-level radioactive waste that result from normal operation of nuclear units have increased significantly in recent years and are expected to continue to rise. Pursuant to the Low-Level Radioactive Waste Policy Act, each state is responsible for disposal of low-level waste generated in that state. States may form regional compacts to jointly fulfill their responsibilities. The States of Tennessee and Alabama (where TVA nuclear plants are located) have joined with six other southeastern states to form the Southeast Compact Commission for Low-Level Radioactive Waste Management. This commission regulates the siting of new disposal facilities and the disposal of low-level waste within the southeastern states.

Until July 1995, the low-level waste generators located in the eight Southeastern states were required to dispose of their waste at the Barnwell, South Carolina disposal facility. In July, South Carolina withdrew from the Southeast Compact Commission in order to open the Barnwell facility to all states except North Carolina. The states participating in the Southeast Compact Commission have selected North Carolina as the host state to select, license, and construct a new disposal site. TVA plans to continue to use the Barnwell facility for low-level radioactive waste disposal until the North Carolina facility is opened. Should either or both of the disposal facilities close unexpectedly, low-level radioactive waste will be stored in on-site facilities at the TVA nuclear plants. These facilities are sized to handle any anticipated storage needs for the foreseeable life of the plants.

Nuclear Insurance

The indemnification and limitation of liability plan afforded the United States nuclear industry by the Price-Anderson Act was extended for an additional 15 years in 1988, with certain provisions of the Price-Anderson Act now due to expire on August 1, 2002. The 1988 amendments and the 1993 inflation adjustment to the Price-Anderson Act substantially increased the limit of liability from an accident at an NRC-licensed reactor, and this amount is now approximately \$8.9 billion, composed of primary and secondary layers of financial protection. For further information about this nuclear liability insurance and its deferred premium see Note 10 of “Notes to Financial Statements” in the Financial Statements. TVA, in accordance with industry practice, maintains certain liability insurance coverage for workers at the nuclear sites.

NRC regulations require nuclear power plant licensees to obtain, and TVA has acquired, onsite property damage insurance coverage of \$1.06 billion per nuclear site. Some of the nuclear property insurance may require the payment of retrospective premiums of up to approximately \$40 million in the event that losses by another insured party or TVA exceed available funds. In accordance with NRC regulations, the proceeds of nuclear property insurance are used first to ensure that the reactor is in safe and stable condition and that it

can be maintained in a condition that prevents significant risk to the public. Next, the proceeds go for decontamination or, if necessary, decommissioning the reactor. Any excess proceeds insure against casualties to property.

Decommissioning

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1994 dollars for Browns Ferry is \$800 million and \$490 million for Sequoyah. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is charged to depreciation expense. The book value of TVA's decommissioning fund investments was \$260 million at September 30, 1995.

ENVIRONMENTAL MATTERS

TVA's activities are subject to various federal, state, and local environmental statutes and regulations. Major areas of regulation affecting TVA's activities include air pollution control, water pollution control, and management and disposal of solid and hazardous wastes. Because TVA is a federal agency, it is subject only to those state and local environmental requirements for which Congress has clearly waived federal agency immunity. Respecting the major environmental areas (air, water and waste), limited waivers have been enacted by Congress. TVA's activities may also be subject to other narrower environmental requirements or to environmental requirements which affect only federal activities.

TVA has incurred and continues to incur substantial capital expenditures and operating expenses to comply with environmental requirements. Because of the continually changing nature of these requirements, the total amount of these costs is not now determinable. It is anticipated that environmental requirements will become more stringent and that compliance costs will increase, perhaps by substantial amounts.

Air Pollution

Under the Clean Air Act, the United States Environmental Protection Agency (the "EPA") has promulgated national ambient air quality standards for certain air pollutants, including sulfur dioxide, particulate matter and nitrogen oxides. Coal-fired generating units are major sources of these pollutants. TVA also operates other smaller sources. The States of Alabama and Tennessee and the Commonwealth of Kentucky have promulgated implementation plans which regulate sources within their boundaries, including TVA sources, in order to achieve and maintain the national ambient standards. TVA has installed control equipment and employs control strategies to comply with applicable state-established emission limitations. TVA estimates that it spent about \$1.4 billion in capital costs on air pollution control activities prior to the 1990 Clean Air Act Amendments.

The acid rain control provisions of the 1990 Amendments to the Clean Air Act establish a number of new requirements for utilities. These requirements will be implemented by EPA and the states in two phases. TVA's Phase 1 affected units were brought into compliance at a capital cost of approximately \$710 million (exclusive of overhead and interest expenses). Phase 2 requirements have not been fully established by the U.S. Environmental Protection Agency, but TVA's current Phase 2 compliance strategy would result in capital costs of approximately \$1.3 billion.

Other 1990 amendments may affect the air pollution control requirements that are applicable to TVA's fossil plants. States and EPA are considering how the long-range transportation of both nitrogen oxide, which contributes to the formation of ozone, and ozone may contribute to violations of the ozone ambient air quality standard in downwind states. EPA is also considering making the current ozone ambient standard more stringent. These actions may lead to additional reductions of utility nitrogen oxide emissions beyond those required by the acid rain provisions of the 1990 amendments. The costs for such additional reductions are unknown at this time but would likely be substantial.

The ozone ambient standard was recently exceeded in the Memphis area and this has triggered the Memphis-Shelby County ozone maintenance-contingency plan. Under this contingency plan, sources of

nitrogen oxides within Shelby County will be required to further reduce emissions. TVA's Allen Fossil Plant is expected to be affected by this. The costs of this are uncertain, but are not expected to be substantial.

Water Pollution

Under the Clean Water Act, every point source which discharges pollutants into navigable waters must obtain a National Pollutant Discharge Elimination System ("NPDES") permit specifying the allowable quantity and characteristics of the pollutants discharged. TVA's various point sources have received NPDES permits, including all of its major generating units. Compliance with NPDES requirements has necessitated substantial expenditures and may require additional, substantial expenditures in the future as NPDES permits come up for renewal and applicable requirements are made more stringent. State implementation of EPA's new stormwater regulations is resulting in revised monitoring requirements for TVA's NPDES permits and could eventually result in new discharge limits.

The Clean Water Act allows the permitting authority to establish thermal limits less stringent than the water quality criteria if the discharger can demonstrate that the alternate limit will assure protection and propagation of a balanced, indigenous aquatic population. TVA has now been issued alternate limits at several of its facilities, and it is meeting these limits.

Solid and Hazardous Waste Management

Under the Resource Conservation and Recovery Act ("RCRA"), the storage, transportation, and disposal of hazardous wastes are regulated by EPA and the states. RCRA also allows EPA and the states to regulate solid wastes and the states have detailed permitting programs for this. TVA has detailed procedures in place that comply with all applicable requirements for the management of hazardous wastes. In addition, TVA has instituted an approved supplier list for hazardous waste disposal contractors under which such contractors' financial status, compliance history, and physical facilities and operations are reviewed before they are allowed to treat or dispose of any of the hazardous wastes generated by TVA facilities. TVA does not itself operate any hazardous waste disposal or treatment facilities but does operate one permitted hazardous waste storage facility in Muscle Shoals, Alabama. TVA has obtained or is in the process of obtaining solid waste disposal permits for the solid waste disposal areas (e.g. fly ash, scrubber sludge, demolition materials and asbestos) it operates at some of its plant sites. TVA's costs in this area have not been substantial but applicable requirements are constantly changing and are expected to become more stringent.

Under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the release and cleanup of hazardous substances are regulated. Certain persons who are associated with the release of hazardous substances to the environment can be held responsible for their cleanup, regardless of when the substances were released or when the specific person may have been associated with the substance. This liability under CERCLA is generally viewed as joint and several. TVA, in a manner similar to other industries and power systems, has generated or used hazardous substances over the years. In connection with these activities, TVA has been identified as a potentially responsible party with respect to three non-TVA sites at which TVA hazardous substances were disposed and which have not yet been resolved. In addition, TVA is currently investigating two other sites at which TVA is either an owner or a partial owner and for which TVA may have cleanup responsibilities by virtue of its control of the property. TVA's potential liabilities for its share of cleanup costs at these sites are uncertain but in total should be less than \$10 million.

Miscellaneous

Polychlorinated biphenyls ("PCBs") have been widely used as insulating fluids in electric equipment (e.g., transformers and capacitors). Use of such equipment and the cleanup of released PCBs are regulated by EPA under the Toxic Substances Control Act. The TVA power system uses thousands of pieces of equipment which contain some level of PCBs. Most of this equipment can continue to be operated under EPA's PCB regulations for the remainder of its useful lives, but TVA is phasing out much of this equipment as a matter of policy. The cost of phasing out all of this equipment would exceed \$100 million (equipment replacement and disposal costs) but cannot be accurately determined at this time. TVA has in place detailed procedures to conform its operations to EPA's PCB regulations, and it has not incurred substantial costs in this area.

Many of TVA's facilities were constructed at a time when asbestos was the insulation of choice by industry. Asbestos materials now require special handling and disposal when they are removed. Although not required, TVA is removing or encapsulating asbestos as appropriate.

There is a growing public concern about whether there are adverse health effects from exposure to electric and magnetic fields ("EMF"). There are many sources of EMF, including electric transmission lines. Although there is no conclusive evidence that EMF causes adverse health effects, research in this area continues. Substantial costs could be incurred by electric systems, including TVA, if EMF levels from transmission lines have to be reduced.

As a federal agency, TVA is required to consider the potential environmental effects of major federal actions affecting the quality of the human environment under the National Environmental Policy Act (the "NEPA") and implementing regulations and to make these evaluations available to the public. TVA has incorporated the NEPA review process into its decision making process. NEPA-related costs are incurred continuously but not in substantial amounts.

INSURANCE

TVA does not generally carry property damage or public liability insurance except as may be required or appropriate with respect to nuclear facilities and except to the extent it may do so as part of an owner-controlled insurance program it has implemented for some large contracts requiring on-site labor. Liability for service-connected injuries to employees is governed by the Federal Employees' Compensation Act. See "Nuclear Power Program" — "Nuclear Insurance" herein and Note 10 of "Notes to Financial Statements" in the Financial Statements for additional information with respect to insurance.

MANAGEMENT

TVA is administered by a board of directors composed of three persons appointed by the President and confirmed by the Senate. The Board and selected officers, their ages, their years of employment with TVA and principal occupations for recent years are as follows:

| <u>Name and Title</u> | <u>Age</u> | <u>Year Commenced Employment</u> | <u>Year Term Expires</u> |
|---|------------|--------------------------------------|------------------------------|
| Craven Crowell Chairman | 52 | 1993 | 2002 |
| Johnny H. Hayes Director | 55 | 1993 | 1996 |
| William H. Kennoy Director | 58 | 1991 | 1999 |
| Joseph W. Dickey Chief Operating Officer | 51 | 1991 | |
| Oliver D. Kingsley, Jr. President of TVA Nuclear and Chief Nuclear Officer | 53 | 1988 | |
| David N. Smith Chief Financial Officer | 51 | 1995 | |
| Norman A. Zigrossi Chief Administrative Officer | 60 | 1986 | |
| Edward S. Christenbury General Counsel and Secretary | 54 | 1987 | |

Mr. Crowell was appointed to the Board in July 1993. Prior to his current position, he served as Chief of Staff for Jim Sasser, Tennessee's then senior U.S. Senator (1989-1993), as Vice President of TVA's Office of Governmental & Public Affairs (1988-1989), and as TVA's Director of Information (1980-1988).

Mr. Hayes was appointed to the Board in July 1993. Prior to his current position, he served as the State of Tennessee's Commissioner of Economic and Community Development (1992-1993) and as Tennessee's Commissioner of Employment Security (1991-1992).

Mr. Kennoy was appointed to the Board in April 1991. Prior to his current position, he served as President of Kennoy Engineers for twenty-five years.

Mr. Dickey was named Chief Operating Officer in February 1994. Prior to his current position, he served as TVA's Senior Vice President, Fossil and Hydro Power (1991-1994), Vice President of Power Resources (Florida Power & Light Co.) (1988-1991), and as Vice President, Nuclear Energy (Florida Power & Light Co.) (1985-1988).

Mr. Kingsley was named President of TVA Nuclear and Chief Nuclear Officer in February 1994. Prior to his current position, he served as TVA's President, Generating Group (1991-1994), as TVA's Senior Vice President of Nuclear Power (1988-1991), and as Vice President, Nuclear Operations for System Energy Resources, Inc. (Mississippi Power and Light Company) (1985-1988).

Mr. Smith was named Chief Financial Officer in January 1995. Prior to his current position, he served as Executive Director of Odyssey Financial (1993-1994), as Vice President of Finance of LTV Corporation (1991-1993), and as Assistant Treasurer and Director of Corporate Finance of LTV Corporation (1986-1991).

Mr. Zigrossi was named Chief Administrative Officer in February 1994. Prior to his current position, he served as TVA's President, Resource Group (1992-1994) and as TVA's Inspector General (1986-1992).

Mr. Christenbury assumed the position of General Counsel of TVA in January 1987. Prior to his current position, he served as an Assistant General Counsel at the NRC (1980-1987).

EMPLOYEES

On September 30, 1995, TVA had about 16,500 employees, of which approximately 5,600 were trades and labor employees. Neither the federal labor laws covering most private sector employers, nor those covering most federal agencies are applicable to TVA; however, the Board has a longstanding policy of recognizing and dealing with recognized representatives of its employees. TVA employees are prohibited by federal law from engaging in strikes against TVA. In 1992, TVA entered into separate long-term agreements with the Tennessee Valley Trades and Labor Council (“Council”), the Salary Policy Employee Panel (“Panel”), and the International Brotherhood of Teamsters (“Teamsters”). One agreement recognizes the Panel for collective bargaining purposes for 20 years. The other recognizes the Council and Teamsters for collective bargaining purposes for 15 years. About 76 percent of TVA’s employees are in these bargaining units, all of which are covered by existing collective bargaining agreements. The collective bargaining agreements with the Council (which is comprised of six unions representing annual trades and labor employees, including those working inside the power plants) and the Teamsters (covering materials handling work) have no specific expiration date; however, each contains provisions for possible expiration of major parts of the agreement as early as 1997, upon six months’ notice. The collective bargaining agreement with the Panel (comprised of five unions representing white collar employees) also has no expiration date; however, the agreement provides for possible expiration of major parts of the agreement in 1999, upon 12 months’ notice. Each of these agreements provide for negotiation of most provisions except monetary matters about every three years; wage and salary and benefit negotiations or adjustments generally occur annually. Unresolved disputes over rates of pay for trades and labor employees are resolved by binding decisions of the Secretary of Labor, while pay and monetary benefits disputes for other represented employees are resolved through binding arbitration. TVA’s hourly construction, modification and supplemental maintenance work is now performed by contractors primarily under project labor agreements negotiated by TVA and the Council. Permanent craft operating and regular maintenance work continues to be performed by annual TVA employees represented by the Council for operating and maintenance employees, and by the Teamsters for materials handling work.

Salaries of regular TVA employees are limited by a federal pay cap (Executive Level IV, currently \$115,700). This had led in the past to difficulties in the recruitment and retention of top management talent, and continues to be an issue which TVA must face in its recruitment and retention efforts. The impact of the pay cap has been alleviated somewhat by the increases in TVA’s pay cap since January 1990 from \$80,700 to \$115,700. TVA has also addressed this issue by developing and implementing supplementary compensation arrangements, which have substantially reduced the impact of the pay cap. In TVA’s opinion, the implementation of these arrangements is within TVA’s legal authority. The GAO has expressed the opinion that some of these arrangements are not within TVA’s legal authority. However, GAO has no authority to issue binding legal opinions on this matter or to stop any TVA payments. Congress is aware of TVA’s supplementary compensation arrangements and has not taken any action that would undermine TVA’s position that the arrangements are within its legal authority. In October 1995, the President issued an Executive Order requiring Government corporations, including TVA, to submit information to the U.S. Office of Management and Budget (“OMB”) on bonuses paid to its executives in excess of \$25,000. Those bonuses and the information supporting them will be reviewed by OMB and the U.S. Department of Labor and will also be publicly disseminated. OMB approval of TVA’s bonuses is not required.

CERTAIN PROVISIONS OF THE TENNESSEE VALLEY AUTHORITY ACT

The following summarizes certain provisions of the Act.

Payments in Lieu of Taxes

TVA is not subject to federal income taxes or to taxation by states or their subdivisions. However, the Act requires TVA to make payments in lieu of taxes to states and counties in which the power operations of the Corporation are conducted. The basic amount is 5 percent of gross revenues from the sale of power to other than federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

Payments to the Treasury

The Act requires TVA to make certain payments into the Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment. Net Power Proceeds are defined as the remainder of TVA's Gross Power Revenues after deducting the cost of operating, maintaining and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any power facility or interest therein.

Acquisition of Real Estate

The Act empowers TVA to acquire real estate in the name of the United States of America by purchase or by exercise of the right of eminent domain, "and thereupon all such real estate shall be entrusted to the Corporation as the agent of the United States to accomplish the purposes of [the] Act". Since nearly all of TVA's properties, including powerhouses and transmission line rights-of-way, constitute real estate, title to which is held in the name of the United States and entrusted to TVA as agent of the United States, all references in this Statement to "TVA properties" and the like, and to the amounts invested therein, should be read and construed in the light of this provision of the Act.

THE BASIC RESOLUTION; POWER BONDS, DISCOUNT NOTES AND OTHER INDEBTEDNESS

TVA's Power Bonds are issued pursuant to Section 15d of the Act and pursuant to the Basic Resolution. At December 31, 1995, TVA had outstanding \$24.9 billion (\$24.3 billion at September 30, 1995) principal amount of Power Bonds and \$1.9 billion (\$1.2 billion at September 30, 1995) of Power Bonds that are being redeemed under in-substance defeasance arrangements, issued pursuant to the Basic Resolution and resolutions supplemental thereto. Power Bonds may be issued only to provide capital for TVA's power program (including refunding any Evidences of Indebtedness issued for like purposes) and only as authorized by law at the time of issuance. Power Bonds are payable as to both principal and interest solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. Net Power Proceeds for 1995, 1994, and 1993 were \$2.6 billion, \$2.6 billion and \$2.5 billion, respectively. Power Bonds of each series must be further authorized by Supplemental Resolution.

TVA intends from time to time to issue New Power Bonds with maturities and on terms determined in light of market conditions at the time of sale. The New Power Bonds may be sold to dealers or underwriters, who may resell the New Power Bonds in public offerings or otherwise. In addition, New Power Bonds may be sold by TVA directly or through other entities.

Except for FISBS described below, the specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of New Power Bonds, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, together with a description of any amendments or supplements to the Basic Resolution in connection with the sale of New Power Bonds being offered at a particular time will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such New Power Bonds.

New Power Bonds include TVA's FISBS that may be issued from time to time in installments with maturities of from one year to fifty years. TVA intends to offer FISBS for sale on a continuous basis to members of a group of securities dealers selected by TVA, who will resell such FISBS. The aggregate principal amount of all such Installment Bonds will not exceed \$4 billion at any one time outstanding and the maximum effective rate payable on any such Installment Bonds will not exceed 10 percent.

Information relating to FISBS will be set forth in an Installment Bonds offering circular and any appropriate amendment or supplement thereto. At the time of each sale TVA will determine if the FISBS

then being sold will be subject to redemption prior to the maturity date and will establish the purchase price, principal amount, interest rate or interest rate formula, maturity date, and certain other terms of such sale.

TVA's Discount Notes are also issued pursuant to Section 15d of the Act and in accord with Section 2.5 of the Basic Resolution. As of December 31, 1995, TVA had outstanding approximately \$2.4 billion (\$2.7 billion at September 30, 1995) in Discount Notes. The Discount Notes are payable solely from Net Power Proceeds (but may, at the option of TVA, be paid from the proceeds of refunding obligations or other funds legally available for such payment) and are not obligations of, or guaranteed by, the United States of America.

TVA intends to offer Discount Notes for sale on a continuous basis to a group of securities dealers selected by TVA, who will resell such notes. Discount Notes will be issued in such form and upon such terms and conditions as deemed appropriate by TVA. Certain information respecting Discount Notes will be set forth in a Discount Notes offering circular and any appropriate supplement thereto.

TVA from time to time may issue Other Indebtedness, in addition to New Power Bonds and Discount Notes, to assist in financing its Power Program. Other Indebtedness, such as Quarterly Income Debt Securities ("QIDS"), are issued pursuant to Section 15d of the Act and under appropriate authorizing resolutions.

Subordinated debt securities, such as QIDS, may be issued from time to time by TVA with maturities and on terms determined in light of market conditions at the time of sale. These subordinated debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise. In addition, the subordinated debt securities may be sold by TVA directly or through other entities. TVA subordinated debt securities will be payable as to both principal and interest solely from Net Power Proceeds and will not be obligations of, or guaranteed by, the United States of America.

The specific aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, if any, purchase price to be paid to TVA, any terms for redemption or other special terms, form and denomination of Other Indebtedness, information as to any stock exchange listing, and the names of any dealers, underwriters or agents, will be set forth in an offering circular, and any appropriate supplement thereto, together with the terms of such Other Indebtedness.

The following summary of certain provisions of the Basic Resolution does not purport to be complete and is qualified in its entirety by reference to the full text of the Basic Resolution.

Application of Net Power Proceeds

Section 2.3 of the Basic Resolution provides as follows:

Net Power Proceeds shall be applied, and the Corporation hereby specifically pledges them for application, first to payments due as interest on Bonds, on Bond Anticipation Obligations, and on any Evidences of Indebtedness issued pursuant to Section 2.5 which rank on a parity with Bonds as to interest; to payments of the principal due on Bonds for the payment of which other provisions have not been made; and to meeting requirements of sinking funds or other analogous funds under any Supplemental Resolutions. The remaining Net Power Proceeds shall be used only for:

(a) Required interest payments on any Evidences of Indebtedness issued pursuant to Section 2.5 which do not rank on a parity with Bonds as to interest.

(b) Required payments of or on account of principal of any Evidences of Indebtedness other than Bonds.

(c) Minimum payments into the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment.

(d) Investment in Power Assets, additional reductions of the Corporation's capital obligations, and other lawful purposes related to the Power Program; provided, however, that payments into the United States Treasury in any fiscal year in reduction of the Appropriation Investment in addition to the

minimum amounts required for such purpose by the Act may be made only if there is a net reduction during such year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes, and only to such extent that the percentage of aggregate reduction in the Appropriation Investment during such year does not exceed the percentage of net reduction during the year in the dollar amount of outstanding Evidences of Indebtedness issued for capital purposes.

Section 2.4 of the Basic Resolution provides as follows:

The Corporation, having first adopted a Supplemental Resolution authorizing the issuance of a series of Bonds and pending such issuance, may issue Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) to be paid from the proceeds of such series of Bonds when issued or from other funds that may be available for that purpose.

Section 2.5 of the Basic Resolution provides as follows:

To assist in financing its Power Program the Corporation may issue Evidences of Indebtedness other than Bonds and Bond Anticipation Obligations, which may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 hereof, but no such other Evidences of Indebtedness shall rank on a parity with or ahead of the Bonds as to payments on account of the principal thereof or rank ahead of the Bonds as to payments on account of the interest thereon.

See “Amendments to the Basic Resolution to Become Effective in the Future” for a discussion of amendments that will affect the above provisions of Sections 2.3 and 2.5 of the Basic Resolution.

Rate Covenant

Section 3.2 of the Basic Resolution provides as follows:

The Corporation shall fix, maintain and collect rates for power sufficient to meet in each fiscal year the requirements of that portion of the present subsection (f) of section 15d of the Act which states as follows:

The Corporation shall charge rates for power which will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to States and counties in lieu of taxes; debt service on outstanding bonds, including provision and maintenance of reserve funds and other funds established in connection therewith; payments to the Treasury as a return on the appropriation investment pursuant to subsection (e) hereof; payment to the Treasury of the repayment sums specified in subsection (e) hereof; and such additional margin as the Board may consider desirable for investment in power system assets, retirement of outstanding bonds in advance of maturity, additional reduction of appropriation investment, and other purposes connected with the Corporation’s power business, having due regard for the primary objectives of the Act, including the objective that power shall be sold at rates as low as are feasible.

For purposes of this Resolution, “debt service on outstanding bonds,” as used in the above provision of the Act, shall mean for any fiscal year the sum of all amounts required to be (a) paid during such fiscal year as interest on Evidences of Indebtedness, (b) accumulated in such fiscal year in any sinking or other analogous fund provided for in connection with any Evidences of Indebtedness, and (c) paid in such fiscal year on account of the principal of any Evidences of Indebtedness for the payment of which funds will not be available from sinking or other analogous funds, from the proceeds of refunding issues, or from other sources; provided, however, that for purposes of clause (c) of this definition Bond Anticipation Obligations and renewals thereof shall be deemed to mature in the proportions and at the times provided for paying or setting aside funds for the payment of the principal of the authorized Bonds in anticipation of the issuance of which such Bond Anticipation Obligations were issued.

The rates for power fixed by the Corporation shall also be sufficient so that they would cover all requirements of the above-quoted provision of subsection (f) of section 15d of the Act if, in such requirements, there were substituted for “debt service on outstanding bonds” for any fiscal year the amount which if applied annually for 35 years would retire, with interest at the rates applicable thereto, the originally

issued amounts of all series of Bonds and other Evidences of Indebtedness, any part of which was outstanding on October 1 of such year.

Covenant for Protection of Bondholders' Investment

Under the Act and Section 3.3 of the Basic Resolution, TVA must, in each successive 5-year period beginning October 1, 1960, use either for the reduction of its capital obligations (including Evidences of Indebtedness and the Appropriation Investment) or for investment in Power Assets an amount of Net Power Proceeds at least equal to the sum of (1) depreciation accruals and other charges representing the amortization of capital expenditures and (2) the net proceeds from any disposition of power facilities.

Depreciation

The Basic Resolution requires TVA to accrue, in accordance with a recognized method, annual amounts for depreciation of its power properties (except land and other nondepreciable property) which will amortize their original cost less anticipated net salvage value within their expected useful lives. TVA has provided allowances for depreciation of its power properties (except land and other nondepreciable property) on a straight-line basis during their expected useful lives.

Issuance of Additional Bonds and Other Evidences of Indebtedness

The Act presently limits the issuance of Evidences of Indebtedness by TVA to a total of \$30 billion outstanding at any one time to assist in financing TVA's power program (and for refunding). At December 31, 1995, TVA had approximately \$27.5 billion (\$27.1 billion at September 30, 1995) of outstanding Evidences of Indebtedness. This total does not include \$1.9 billion (\$1.2 billion at September 30, 1995) of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be included in the amount of debt that is subject to the \$30 billion limit. (Irrevocable trusts, that hold U.S. Treasury obligations that will provide funds sufficient to pay all remaining amounts that will become due, have been established for each series of Power Bonds being defeased. See Note 6 to "Notes to Financial Statements" in the Financial Statements.) TVA has announced an intention to limit, by October 1997, total outstanding debt to a level \$2-3 billion below the \$30 billion ceiling. The Basic Resolution permits the issuance of Power Bonds only to provide capital for TVA's power program, including the refunding of any Evidences of Indebtedness issued for that purpose.

Power Bonds, the terms and conditions of which may not be inconsistent with the Basic Resolution, must also be authorized by Supplemental Resolution.

The issuance of Power Bonds is limited as follows by the Basic Resolution:

Each Supplemental Resolution authorizing the issuance of Power Bonds must contain a finding by the Board that after the Power Bonds authorized thereby have been issued Gross Power Revenues will be adequate to meet the requirements of the Basic Resolution with respect to rates and the application of depreciation accruals. These requirements are described under "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Rate Covenant" and — "Covenant for Protection of Bondholders' Investment".

The amount of Power Bonds outstanding may not be increased unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the appropriation investment) for the latest five fiscal years has aggregated at least \$200 million. Moreover, that minimum requirement is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rate payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. See Section 3.4 of the Basic Resolution and "The Basic Resolution Power Bonds, Discount Notes and Other Indebtedness" — "Amendments to the Basic Resolution to Become Effective in the Future".

Pending the issuance of Power Bonds authorized by a Supplemental Resolution, Bond Anticipation Obligations and renewals thereof (including Interim Obligations to the Secretary of the Treasury) may be

issued, to be paid from the proceeds of such Power Bonds when issued or from other funds that may be available for that purpose.

Evidences of Indebtedness (such as Discount Notes) other than Power Bonds and Bond Anticipation Obligations may also be issued to assist in financing TVA's power program. They may be payable out of Net Power Proceeds subject to the provisions of Section 2.3 of the Basic Resolution. They may not rank on a parity with or ahead of the Power Bonds as to principal or ahead of them as to interest. See "Amendments to the Basic Resolution to Become Effective in the Future".

Mortgaging and Disposal of Power Properties

TVA may not mortgage any part of its power properties and may not dispose of all or any substantial portion of such properties unless provision is made for a continuance of the interest, principal and sinking fund payments due and to become due on all outstanding Evidences of Indebtedness, or for the retirement of such Evidences of Indebtedness.

Modifications of Resolutions and Outstanding Bonds

The Basic Resolution provides for amendments to it, to any Supplemental Resolution, and to any outstanding Power Bonds. In summary, amendments of the respective rights and obligations of TVA and the bondholders may be made with the written consent of the holders of at least 66⅔ percent in principal amount of the outstanding Power Bonds to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Power Bond, or in the above percentage for any such consent, cannot be made without the consent of the holder of such Power Bonds.

In addition, TVA may amend the Basic Resolution or any Supplemental Resolution without the consent of the bondholders in order (1) to close the Basic Resolution against the issuance of additional Power Bonds or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Basic Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Power Bonds issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Basic Resolution or any Supplemental Resolution, so long as such amendments are not contrary to, or inconsistent with, the Basic Resolution or such Supplemental Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interests of holders of the Power Bonds.

Events of Default

Any of the following shall be deemed an Event of Default under the Basic Resolution: (i) default in the payment of the principal or redemption price of any Power Bond when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Power Bond when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Power Bonds or in the Basic Resolution or any Supplemental Resolution for 90 days after written notice specifying such failure has been given to TVA by the holders of at least 5 percent in aggregate principal amount of the then outstanding Power Bonds.

Upon any such Event of Default, the holders of the Power Bonds may proceed to protect and enforce their respective rights, subject to the restrictions described below. The holders of at least 5 percent in aggregate principal amount of Power Bonds then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of holders of Power Bonds, and (iii) to protect and enforce the rights of holders of Power Bonds. Power Bonds do not provide for acceleration upon an Event of Default.

Such holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of an Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

Holders of a majority in aggregate principal amount of the outstanding Power Bonds have the right to direct the time, method and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Power Bonds.

Amendments to the Basic Resolution to Become Effective in the Future

On March 25, 1992, TVA adopted a resolution amending the Basic Resolution, entitled “Fourth Amending Resolution to Basic Tennessee Valley Authority Power Bond Resolution” (the “Fourth Amending Resolution”). The amendments to the Basic Resolution made by the Fourth Amending Resolution will become effective only at such time as either (a) all Power Bonds issued prior to the date of adoption of the Fourth Amending Resolution cease to be outstanding (which will occur not later than November 15, 2029) or (b) the holders of at least 66⅔ percent of the principal amount of all then outstanding Power Bonds issued prior to the adoption of the Fourth Amending Resolution consent in writing to such amendments. At such times as the amendments become effective, they shall apply to all Power Bonds. The holders of Power Bonds offered after March 25, 1992, shall be deemed to have given their consent to the effect that, at any time after the conditions set forth in (a) or (b) above have been met, the amendments to the Basic Resolution made by the Fourth Amending Resolution will become effective in the manner provided. No further vote or consent of the holders of Power Bonds offered after March 25, 1992, is required to permit such amendments to the Basic Resolution to become effective.

The Fourth Amending Resolution, when effective in accordance with its terms and the terms of the Basic Resolution as described above, will (1) delete from the Basic Resolution the limitation on issuance of Power Bonds set forth in Section 3.4 thereof and (2) amend the Basic Resolution to permit issuance of other Evidences of Indebtedness under Section 2.5 thereof that rank on a parity with Power Bonds as to principal and interest.

Section 3.4 of the Basic Resolution presently restricts TVA’s ability to issue Power Bonds unless net power income (after interest expense and depreciation charges but before payments as a return on or in reduction of the Appropriation Investment) for the latest five fiscal years has aggregated at least \$200 million. That amount is increased by \$15 million for each ¼ percent (or major fraction thereof) by which the average for those five years of the October 1 average interest rates payable by the United States Treasury upon its total marketable public obligations exceeds 3¼ percent. Upon the effectiveness of the Fourth Amending Resolution (which eliminates Section 3.4) Sections 3.5 through 3.10 will be renumbered as appropriate.

The foregoing is a brief summary of certain provisions of the Fourth Amending Resolution. This summary is not to be considered a full statement of the terms of the Fourth Amending Resolution and, accordingly, is qualified by reference to the Fourth Amending Resolution. Copies in reasonable quantity of the Fourth Amending Resolution may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

Stripping

Certain series of the Corporation’s New Power Bonds (the “Eligible New Power Bonds”) may be separated (“stripped”) into their Interest and Principal Components (as hereinafter defined) and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each Eligible New Power Bond are: each future interest payment due on or prior to the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (each an “Interest Component”); and the principal payment plus any interest payments after the first date on which the Eligible New Power Bond is subject to redemption at the option of the Corporation (the “Principal Component”). Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. A request for separation of

an Eligible New Power Bond into its Interest and Principal Components must be made to the Federal Reserve Bank of New York (“FRBNY”). Currently the FRBNY does not charge a fee for stripping Eligible New Power Bonds. For an Eligible New Power Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Eligible New Power Bond must be in an amount that, based on the stated interest rate of the Eligible New Power Bonds, will produce a semi-annual interest payment of \$1,000 or multiples thereof. The minimum principal amounts required to strip an Eligible New Power Bond at various interest rates, as well as the interest payments corresponding to those minimum principal amounts, may be obtained by calling the Corporation’s Vice President and Treasurer at (423) 632-3366 and the minimum principal amount required to strip an Eligible New Power Bond will be disclosed in a related offering circular except for Installment Bonds. Interest and Principal Components will be obligations of TVA payable solely from TVA’s Net Power Proceeds.

Once a New Power Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related New Power Bonds by crediting holders’ accounts at the FRBNY. At the request of a holder and on the holder’s payment of a fee (currently the FRBNY’s fee applicable to on-line book-entry securities transfers), the FRBNY will restore (“reconstitute”) the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped New Power Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a stripped New Power Bond and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities.

The offering price of the Interest and Principal Components could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted New Power Bonds or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted New Power Bonds.

The Interest and Principal Components of Eligible New Power Bonds could be subject to restrictions or requirements with respect to the legality of investment therein which do not apply to New Power Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment in Interest and Principal Components.

INDEPENDENT ACCOUNTANTS

The financial statements of TVA at September 30, 1995, and 1994 and for each of the three fiscal years in the period ended September 30, 1995, appended hereto as part of the Information Statement, have been audited by Coopers & Lybrand L.L.P., independent accountants, as set forth in their report, which includes an emphasis of a matter paragraph with respect to TVA's announcement that it will not by itself, complete certain projects as nuclear units dated November 16, 1995, which report is also appended hereto.

* * * * *

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Information Statement is not to be construed as a contract or agreement with the purchaser of any of the New Power Bonds, Discount Notes or Other Indebtedness.

This Information Statement has been approved by a duly authorized officer of the Tennessee Valley Authority.

Tennessee Valley Authority

By: /s/ JOHN M. HOSKINS

John M. Hoskins
*Vice President and
Treasurer*

Dated March 20, 1996

TENNESSEE VALLEY AUTHORITY
FINANCIAL STATEMENTS
CONTENTS

| | <u>Page</u> |
|---|-------------|
| Financial Highlights — Power Program | F-2 |
| Power System Statistics | F-2 |
| Statements of Net Expense and Accumulated Net Expense — Nonpower Programs | F-3 |
| Balance Sheets | F-4 |
| Statements of Income and Retained Earnings — Power Program | F-5 |
| Statements of Cash Flows | F-6 |
| Notes to Financial Statements | F-7 |
| Report of Independent Accountants | F-18 |
| Report of Management | F-19 |
| Comparative Five-Year Data | F-20 |

FINANCIAL HIGHLIGHTS — POWER PROGRAM

| | As of and for the Years Ended September 30, | | |
|----------------------------|--|----------|-------------------|
| | 1995 | 1994 | Percent Change |
| | (Millions of dollars) | | |
| Operating Revenues | \$ 5,375 | \$ 5,401 | — |
| Operating Expenses | 3,448 | 3,461 | — |
| Operating Income | 1,927 | 1,940 | (1%) |
| Other Expense | (91) | (59) | 54% |
| Interest Expense | 1,826 | 1,730 | 6% |
| Net Income | 10 | 151 | (93%) |
| Total Assets | \$33,293 | \$31,842 | 5% |
| Capitalization | | | |
| Long-term Debt | \$23,889 | \$22,922 | 4% |
| Proprietary Capital | 4,030 | 4,082 | (1%) |
| Total Capitalization | \$27,919 | \$27,004 | 3% |

POWER SYSTEM STATISTICS

| | As of and for the Years Ended September 30, | | |
|---|--|---------|-------------------|
| | 1995 | 1994 | Percent Change |
| | (Millions of kilowatt-hours) | | |
| System Input | | | |
| System Generation | | | |
| Hydro, including Pumped Storage | 13,515 | 15,679 | (14%) |
| Coal | 94,347 | 92,058 | 2% |
| Nuclear | 23,355 | 18,359 | 27% |
| Combustion Turbine | 393 | 239 | 64% |
| Total Net Generation | 131,610 | 126,335 | 4% |
| Purchased | 3,793 | 4,589 | (17%) |
| Net Interchange and Wheeling | 3,604 | 1,402 | 157% |
| Total System Input | 139,007 | 132,326 | 5% |
| System Output | | | |
| Sales | | | |
| Municipalities and Cooperatives | 110,245 | 108,073 | 2% |
| Federal Agencies | 7,226 | 4,407 | 64% |
| Industries directly served | 16,684 | 15,792 | 6% |
| Total Sales | 134,155 | 128,272 | 5% |
| Other | 1,378 | 915 | 51% |
| Losses | 3,474 | 3,139 | 11% |
| Total System Output | 139,007 | 132,326 | 5% |
| Winter Net Dependable Capacity (megawatts) | 25,831 | 25,880 | — |
| Percent of Average Gross Generation to Winter Net Dependable Capacity ... | 64.39 | 62.06 | 4% |
| System Peak Load (megawatts) — Summer | 25,496 | 23,398 | 9% |
| System Peak Load (megawatts) — Winter | 24,676 | 24,723 | — |
| Annual Load Factor | 62.22 | 60.42 | 3% |
| Percent Winter Net Dependable Capacity by Fuel Source | | | |
| Coal | 58% | 58% | — |
| Hydro | 20% | 20% | — |
| Combustion Turbine | 9% | 9% | — |
| Nuclear | 13% | 13% | — |

STATEMENTS OF NET EXPENSE — NONPOWER PROGRAMS

| | For the years ended September 30, | | |
|-------------------------------------|-----------------------------------|--------------|--------------|
| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
| | (in millions) | | |
| Net expense | | | |
| Stewardship | \$ 63 | \$ 78 | \$ 73 |
| Water and land | — | 8 | (3) |
| Land Between The Lakes | 6 | 4 | 5 |
| Rural development | 23 | 20 | 23 |
| Environmental Research Center | 21 | 26 | 30 |
| Columbia Dam | 69 | — | — |
| Net expense | <u>\$182</u> | <u>\$136</u> | <u>\$128</u> |

STATEMENTS OF ACCUMULATED NET EXPENSE — NONPOWER PROGRAMS

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|---|----------------|----------------|----------------|
| Net expense | \$ 182 | \$ 136 | \$ 128 |
| Accumulated net expense at beginning of period | <u>2,939</u> | <u>2,803</u> | <u>2,675</u> |
| Accumulated net expense at end of period | <u>\$3,121</u> | <u>\$2,939</u> | <u>\$2,803</u> |

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY

BALANCE SHEETS

At September 30, 1995 and 1994

| | Power program | | All programs | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 1995 | 1994 | 1995 | 1994 |
| | (Millions) | | | |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash | \$ 52 | \$ 2 | \$ 131 | \$ 152 |
| Accounts receivable | 681 | 676 | 698 | 720 |
| Inventories, at average cost | | | | |
| Fuel | 104 | 104 | 104 | 104 |
| Other | 251 | 243 | 251 | 243 |
| Total current assets | 1,088 | 1,025 | 1,184 | 1,219 |
| PROPERTY, PLANT AND EQUIPMENT | | | | |
| Completed plant | 18,412 | 16,700 | 19,488 | 17,845 |
| Less accumulated depreciation | (6,061) | (5,584) | (6,351) | (5,861) |
| Net completed plant | 12,351 | 11,116 | 13,137 | 11,984 |
| Construction in progress | 9,556 | 9,520 | 9,606 | 9,558 |
| Deferred nuclear generating units | 6,227 | 6,206 | 6,227 | 6,206 |
| Nuclear fuel and capital lease assets | 1,167 | 1,229 | 1,167 | 1,229 |
| Total property, plant and equipment | 29,301 | 28,071 | 30,137 | 28,977 |
| INVESTMENT FUNDS | 260 | 150 | 260 | 150 |
| DEFERRED CHARGES AND OTHER ASSETS | | | | |
| Loans and other long-term receivables | 323 | 299 | 394 | 355 |
| Debt issue and reacquisition costs | 1,233 | 1,340 | 1,233 | 1,340 |
| Other deferred charges | 1,088 | 957 | 1,088 | 957 |
| Total deferred charges and other assets | 2,644 | 2,596 | 2,715 | 2,652 |
| Total assets | <u>\$33,293</u> | <u>\$31,842</u> | <u>\$34,296</u> | <u>\$32,998</u> |
| CAPITALIZATION AND PROPRIETARY CAPITAL | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 694 | \$ 646 | \$ 722 | \$ 770 |
| Accrued liabilities | 130 | 196 | 141 | 221 |
| Accrued interest | 455 | 424 | 455 | 424 |
| U.S. Treasury notes | 150 | 150 | 150 | 150 |
| Discount notes | 2,681 | 2,459 | 2,581 | 2,459 |
| Current maturities of long-term debt | 1,306 | 716 | 1,306 | 716 |
| Total current liabilities | 5,416 | 4,591 | 5,455 | 4,740 |
| OTHER LIABILITIES | 1,264 | 963 | 1,264 | 963 |
| LONG-TERM DEBT | | | | |
| Senior debt: public bonds | 19,153 | 19,146 | 19,153 | 19,146 |
| Federal Financing Bank | 3,200 | 3,400 | 3,200 | 3,400 |
| Subordinated debt: public bonds | 600 | — | 600 | — |
| Unamortized discount | (370) | (340) | (370) | (340) |
| Total long-term debt | 22,583 | 22,206 | 22,583 | 22,206 |
| PROPRIETARY CAPITAL | | | | |
| Appropriation investment | 628 | 648 | 4,713 | 4,594 |
| Retained earnings reinvested in power program | 3,402 | 3,434 | 3,402 | 3,434 |
| Accumulated net expense of nonpower programs | | | (3,121) | (2,939) |
| Total proprietary capital | 4,030 | 4,082 | 4,994 | 5,089 |
| Total liabilities and proprietary capital | <u>\$33,293</u> | <u>\$31,842</u> | <u>\$34,296</u> | <u>\$32,998</u> |

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF INCOME AND RETAINED EARNINGS — POWER PROGRAM
For the Years Ended September 30, 1995, 1994 and 1993

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|--|----------------|----------------|----------------|
| | (Millions) | | |
| OPERATING REVENUES | | | |
| Sales of electricity | | | |
| Municipalities and cooperatives | \$4,654 | \$4,582 | \$4,479 |
| Federal agencies | 179 | 296 | 254 |
| Industries directly served | 460 | 452 | 472 |
| Other | <u>82</u> | <u>71</u> | <u>71</u> |
| Total operating revenues | 5,375 | 5,401 | 5,276 |
| OPERATING EXPENSES | | | |
| Fuel and purchased power, net | 1,443 | 1,493 | 1,401 |
| Operating and maintenance | 1,050 | 1,081 | 1,174 |
| Depreciation and amortization | 703 | 639 | 457 |
| Tax-equivalent payments | <u>252</u> | <u>248</u> | <u>237</u> |
| Total operating expenses | <u>3,448</u> | <u>3,461</u> | <u>3,269</u> |
| Operating income | 1,927 | 1,940 | 2,007 |
| OTHER INCOME AND EXPENSE, NET | <u>(91)</u> | <u>(59)</u> | <u>23</u> |
| Income before interest charges | 1,836 | 1,881 | 2,030 |
| INTEREST CHARGES | | | |
| Interest on debt | 1,908 | 1,731 | 1,666 |
| Amortization of debt discount, issue, and reacquisition costs, net | 116 | 122 | 111 |
| Allowance for funds used during construction | <u>(198)</u> | <u>(123)</u> | <u>(58)</u> |
| Net interest charges | <u>1,826</u> | <u>1,730</u> | <u>1,719</u> |
| NET INCOME | 10 | 151 | 311 |
| Return on appropriation investment | <u>(42)</u> | <u>(42)</u> | <u>(48)</u> |
| Increase (decrease) in retained earnings | (32) | 109 | 263 |
| Retained earnings reinvested at beginning of period | <u>3,434</u> | <u>3,325</u> | <u>3,062</u> |
| Retained earnings reinvested at end of period | <u>\$3,402</u> | <u>\$3,434</u> | <u>\$3,325</u> |

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 1995, 1994, and 1993

| | <u>Power program</u> | | | <u>All programs</u> | | |
|--|----------------------|-------------|---------------|---------------------|---------------|---------------|
| | <u>1995</u> | <u>1994</u> | <u>1993</u> | <u>1995</u> | <u>1994</u> | <u>1993</u> |
| | (Millions) | | | | | |
| Cash Flows From Operating Activities | | | | | | |
| Net power income | \$ 10 | \$ 151 | \$ 311 | \$ 10 | \$ 151 | \$ 311 |
| Net expense of nonpower programs | — | — | — | (182) | (136) | (128) |
| Items not requiring (providing) cash | | | | | | |
| Depreciation and amortization | 715 | 639 | 457 | 728 | 651 | 467 |
| Allowance for funds used during construction | (198) | (123) | (58) | (198) | (123) | (58) |
| Nuclear fuel amortization | 112 | 176 | — | 112 | 176 | — |
| Other, net | 72 | 217 | 120 | 142 | 216 | 120 |
| Changes in current assets and liabilities | | | | | | |
| Accounts receivable | (5) | 76 | (59) | 22 | 66 | (68) |
| Inventories | (8) | 99 | (25) | (8) | 99 | (25) |
| Accounts payable and accrued liabilities | 74 | (23) | (186) | (36) | (51) | (185) |
| Accrued interest | 31 | (21) | (35) | 31 | (21) | (35) |
| Other | (1) | (47) | (22) | (2) | (47) | (23) |
| Net cash provided by operating activities | 802 | 1,144 | 503 | 619 | 981 | 376 |
| Cash Flows From Investing Activities | | | | | | |
| Construction expenditures | (1,868) | (2,015) | (2,311) | (1,880) | (2,023) | (2,319) |
| Allowance for funds used during construction | 198 | 123 | 58 | 198 | 123 | 58 |
| Nuclear fuel | (77) | 70 | (2,275) | (77) | 70 | (2,275) |
| Investments | (100) | (26) | 539 | (100) | (26) | 539 |
| Other, net | (24) | (80) | 139 | (39) | (77) | 130 |
| Net cash used in investing activities | (1,871) | (1,928) | (3,850) | (1,898) | (1,933) | (3,867) |
| Cash Flows From Financing Activities | | | | | | |
| Long-term debt | | | | | | |
| Issues | 3,500 | 6,381 | 4,669 | 3,500 | 6,381 | 4,669 |
| Redemptions | (2,503) | (3,175) | (638) | (2,503) | (3,175) | (638) |
| Debt defeased | — | (1,493) | (1,929) | — | (1,493) | (1,929) |
| Short-term borrowings, net | 222 | (726) | 1,628 | 222 | (726) | 1,628 |
| Borrowing expenses, net | (38) | (252) | (359) | (38) | (252) | (359) |
| Congressional appropriations | — | — | — | 139 | 141 | 136 |
| Payments to U.S. Treasury | (62) | (62) | (68) | (62) | (62) | (68) |
| Net cash provided by financing activities | 1,119 | 673 | 3,303 | 1,258 | 814 | 3,439 |
| Net change in cash | 50 | (111) | (44) | (21) | (138) | (52) |
| Cash at beginning of period | 2 | 113 | 157 | 152 | 290 | 342 |
| Cash at end of period | <u>\$ 52</u> | <u>\$ 2</u> | <u>\$ 113</u> | <u>\$ 131</u> | <u>\$ 152</u> | <u>\$ 290</u> |

The accompanying notes are an integral part of these financial statements.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

TVA is a wholly-owned corporate agency and instrumentality of the United States. It was established by the TVA Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense by providing: (1) an ample supply of power within the region; (2) navigable channels and flood control for the Tennessee River System; and (3) agricultural and industrial development and improved forestry in the region.

TVA's programs are divided into two types of activities — the power program and the nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. The power program is separate and distinct from the nonpower programs and is required to be self-supporting from power revenues and funds borrowed from public markets. The power program receives no congressional appropriations. Most of the funding for TVA's nonpower programs is provided by congressional appropriations. Certain nonpower activities are also funded by various revenues and user fees. Financial accounts for the power and nonpower programs are kept separately.

Power rates are established by the TVA Board of Directors as authorized by the TVA Act. The TVA Act requires TVA to charge rates for power which, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states in lieu of taxes; debt service on outstanding indebtedness; and annual payments to the U.S. Treasury in repayment of and as a return on the government's initial appropriation investment in TVA power facilities.

Property, plant, and equipment and depreciation

Additions to plant are recorded at cost, which includes direct and indirect costs such as general engineering, a portion of corporate overhead, and an allowance for funds used during construction. The cost of betterments is capitalized and the cost of current repairs and minor replacements is charged to operating expense. The TVA Act requires TVA's Board of Directors to allocate between the power and nonpower programs, subject to the approval of the President of the United States, the cost of completed multipurpose projects. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation. Straight-line depreciation is provided for substantially on a composite basis. Rates of depreciation are derived from engineering studies of useful life. The average of the composite rates that were applied individually to each major class of plant for fiscal years 1995, 1994, and 1993 was 3.19 percent, 3.14 percent, and 3.06 percent, respectively.

Decommissioning costs

Provision for decommissioning costs of nuclear generating units is based on the estimated cost using the dismantling/removal method. The amount stated in 1994 dollars for Browns Ferry is \$800 million, and \$490 million for Sequoyah. The excess of the annual decommissioning provision over earnings from any investments designated for funding decommissioning costs is charged to depreciation expense.

Allowance for funds used

The practice of capitalizing an allowance for funds used during construction is followed in the power program. The allowance is applicable to construction in progress excluding deferred nuclear generating units and Watts Bar One, which is substantially complete. Effective October 1, 1994, TVA changed its method of determining the interest rate used to calculate the allowance for funds used during construction. The change was made to more accurately reflect the nature of the indebtedness issued to fund construction. The effect of the change for fiscal 1995 was to increase the amount of interest capitalized by approximately \$56 million.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear fuel

Prior to 1994, the cost of nuclear fuel, including disposal and capitalized interest, was amortized on the basis of generation and charged to fuel expense. Effective for 1994, TVA elected to reclassify a \$1,009 million capitalized interest component of nuclear fuel to other deferred charges. This regulatory asset is being amortized on a straight-line basis over an eight-year period. The effect of this change was to increase amortization expense by \$126 million for 1995 and 1994. The remaining balance of nuclear fuel will continue to be amortized based on generation. Related financing costs are capitalized as a component of the nuclear fuel acquired.

Investment funds

Prior to September 1993, \$210 million of power funds were invested in zero coupon bonds in order to provide funding for decommissioning nuclear power plants. In September 1993, TVA determined that the portfolio of investments designated for funding decommissioning could be sold and such proceeds reinvested in instruments that would yield greater proceeds over the remaining term to decommissioning dates. Accordingly, these investments were sold for \$373 million and TVA realized a gain of \$163 million. The gain was deferred and amortized into income over a 24-month period beginning in October 1993. As of September 30, 1995, a \$260 million investment portfolio consisting of short-term marketable securities had been reestablished. TVA is currently reviewing various investment alternatives designed to ensure sufficient funding at decommissioning dates.

Debt-issuance costs

Issue and reacquisition expenses, call premiums and other related costs, and discounts on power borrowings are deferred and amortized (accreted), respectively, on a straight-line basis over the term of the related outstanding securities.

Tax-equivalent payments

The TVA Act requires the TVA to make payments to states and local governments in which the power operations of the corporation are conducted. The basic amount is 5 percent of gross revenues from the sale of power to other than federal agencies during the preceding year, with the provision for minimum payments under certain circumstances.

Statements of cash flows

Cash includes the cash available in commercial bank accounts and U.S. Treasury accounts. During fiscal years 1995, 1994, and 1993, interest paid (net of amount capitalized) was \$1,678 million, \$1,628 million, and \$1,642 million, respectively.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

2. NUCLEAR POWER PROGRAM

The nuclear power program at September 30, 1995, consists of nine units at four locations with investments as follows and in the status indicated:

| | <u>Units</u> | <u>Capacity (Megawatts)</u> | <u>Completed Plant, Net</u> | <u>Construction in Progress</u> | <u>Deferred</u> | <u>Fuel Investment</u> |
|---------------------|--------------|---------------------------------|---------------------------------|-------------------------------------|-----------------|----------------------------|
| | | | | (Millions) | | |
| Sequoyah | 2 | 2,442 | \$1,995 | \$ 149 | \$ — | \$106 |
| Browns Ferry | 3 | 3,456 | 2,266 | 1,488 | — | 201 |
| Watts Bar | 2 | 2,540 | — | 6,919 | 1,660 | 85 |
| Bellefonte | 2 | 2,664 | — | — | 4,567 | — |
| Raw Materials | | | — | — | — | 565 |
| Total | | <u>11,102</u> | <u>\$4,261</u> | <u>\$8,556</u> | <u>\$6,227</u> | <u>\$957</u> |

Sequoyah 1, which was operational during 1995, began a refueling outage in September 1995, and returned to service during November 1995. Sequoyah Two returned to service in November 1994, following a refueling outage. Sequoyah One and Two are currently operating at full power.

Browns Ferry 2 returned to service in November 1994, following a refueling outage and is currently operating at full power. Browns Ferry 1 and 3 were taken off-line in March 1985, for plant modifications and regulatory improvements. In October 1995, TVA loaded fuel in Browns Ferry 3 and plans to return this unit to service in 1996. The return-to-service date for Browns Ferry 1 is currently under review in the integrated resource planning effort as discussed below.

During November 1995, TVA received a low-power operating license from the Nuclear Regulatory Commission for Watts Bar Unit 1. TVA loaded fuel in November 1995 and plans to bring Watts Bar 1 into commercial operation in 1996.

In 1988, TVA suspended construction activities on Watts Bar 2 and the unit is currently in lay-up. Bellefonte 1 and 2 were deferred in 1988 and 1985, respectively. Budgeted 1996 expenditures for the three units total \$10 million and are limited to lay-up, maintenance, and ensuring that options remain viable. For financial reporting purposes, the cost of the three units is presented as deferred nuclear generating units.

In 1993, TVA began an integrated resource planning process from which information will be utilized to determine TVA's strategy for meeting future customer energy demands. As part of its long-term energy strategy, TVA is reevaluating the need for finishing Bellefonte 1 and 2 and Watts Bar 2 as nuclear units. Preliminary cost estimates show that completing these facilities as nuclear units could cost as much as \$8.8 billion, which indicates their completion may not be economically feasible. In December 1994, TVA determined it will not, by itself, complete Bellefonte 1 and 2 and Watts Bar 2 as nuclear units. During July 1995, TVA issued a draft of its Integrated Resource Plan (IRP) which identified as a viable option the conversion of the Bellefonte facility to a combined cycle plant utilizing natural gas or gasified coal. The feasibility of converting Bellefonte to an alternate fuel will require in-depth engineering and financial analysis and accordingly, TVA will utilize an outside team of technical and financial experts. The feasibility study is expected to be completed in early 1997. Subsequent to completion of the IRP the TVA Board will consider alternatives, including converting the units to another fuel source and/or completing them with a partner. The draft IRP also concluded that Watts Bar 2 and Browns Ferry 1 should remain in deferred status until completion of the Bellefonte study. The impact on TVA's financial position as a result of completing, converting, or joint venturing these units will be determined upon completion of the Bellefonte study. The future decisions on these units will ultimately impact the method of cost recovery, and the TVA Board has determined that it will, at that time, establish rate adjustments and operating policies to ensure full recovery of the cost of these units and compliance with the requirements of the TVA Act.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear Fuel

In order to monetize a portion of its investment in nuclear fuel, TVA has converted certain fuel assemblies to forms suitable for use at alternate sites and entered into various agreements wherein certain nuclear fuel was loaned or exchanged for fuel-related services and other consideration. As the book value of the natural uranium component of TVA's nuclear fuel exceeds market value, TVA recognized charges in the statements of income related to such transactions totaling \$31 million in 1995 and \$140 million in 1994. As of September 30, 1995, the natural uranium component of the total nuclear fuel asset exceeds current market value by an estimated \$330 million. TVA believes that the total nuclear fuel asset book value of \$957 million will result in average nuclear fuel costs which are within the industry range. During 1993, TVA repurchased nuclear fuel that was previously under capital lease.

3. COMPLETED PLANT — POWER PROGRAM

Completed plant stated at gross cost consists of the following at September 30, 1995, and 1994:

| | 1995 | | | 1994 | | |
|----------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------------------|-----------------|
| | Cost | Accumulated Depreciation | Net | Cost | Accumulated Depreciation | Net |
| | (Millions) | | | | | |
| Fossil Plants | \$ 6,826 | \$2,607 | \$ 4,219 | \$ 5,712 | \$2,458 | \$ 3,254 |
| Nuclear Plants | 5,813 | 1,552 | 4,261 | 5,664 | 1,365 | 4,299 |
| Transmission | 2,659 | 934 | 1,725 | 2,457 | 885 | 1,572 |
| Hydro Plants | 1,184 | 449 | 735 | 1,152 | 433 | 719 |
| Other | 1,930 | 519 | 1,411 | 1,715 | 443 | 1,272 |
| Total | <u>\$18,412</u> | <u>\$6,061</u> | <u>\$12,351</u> | <u>\$16,700</u> | <u>\$5,584</u> | <u>\$11,116</u> |

4. LEASES

TVA presently leases property, plant, and equipment under lease agreements with terms ranging from one to 30 years. Most of the agreements include purchase options and/or renewal options that cover substantially all the economic lives of the properties.

Obligations under capital lease agreements in effect at September 30, 1995 were:

| <u>Fiscal Year</u> | <u>General Plant Capital Leases</u> (Millions) |
|--|---|
| 1996 | \$ 36 |
| 1997 | 36 |
| 1998 | 36 |
| 1999 | 36 |
| 2000 | 36 |
| Thereafter | <u>372</u> |
| Total future minimum lease payments | 552 |
| Interest element included | <u>(342)</u> |
| Present value of future minimum lease payments | <u>\$210</u> |

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

5. APPROPRIATION INVESTMENT — POWER PROGRAM

Changes in the appropriation investment during the fiscal years ended September 30, 1995, 1994, and 1993 were:

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|---|---------------|---------------|---------------|
| | (Millions) | | |
| Power Program | | | |
| Congressional appropriations | \$1,419 | \$1,419 | \$1,419 |
| Transfers of property from other federal agencies | 24 | 24 | 24 |
| Repayments to general fund of the U.S. Treasury | <u>(815)</u> | <u>(795)</u> | <u>(775)</u> |
| Net appropriation investment | <u>\$ 628</u> | <u>\$ 648</u> | <u>\$ 668</u> |

The TVA Act requires payment to the U.S. Treasury from net power proceeds of a return on the net appropriation investment in power facilities plus an annual repayment of such investment. The annual required repayment is \$20 million through the year 2014. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years. The amount of return paid in 1995 was \$42 million and is based on the appropriation investment as of the beginning of the year and the computed average interest rate payable by the U.S. Treasury on its total marketable public obligations as of the same date.

6. BORROWING AUTHORITY

The TVA Act authorizes TVA to issue bonds, notes, and other evidences of indebtedness up to a total of \$30 billion outstanding at any one time. TVA must meet certain cash flow and earnings tests that are contained in the TVA Act and the Basic TVA Power Bond Resolution. Debt service on these obligations, which is payable solely from TVA's net power proceeds, has precedence over the payment to the U.S. Treasury described in note 5. Issues outstanding at September 30, 1995 and 1994 (excluding defeased debt of \$1.2 billion and \$3.8 billion, respectively, which is not considered by TVA to be debt that is subject to the \$30 billion bond limit) consist of the following:

| | <u>1995</u> | <u>1994</u> |
|--|--------------|--------------|
| | (Millions) | |
| Short-Term Debt | | |
| U.S. Treasury | \$ 150 | \$ 150 |
| Held by public | | |
| Discount notes (net of discount) | 2,681 | 2,459 |
| Current portion of long-term debt — 3.41% to 4.25% | <u>1,306</u> | <u>716</u> |
| Total short-term debt | <u>4,137</u> | <u>3,325</u> |

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

| | <u>1995</u> | <u>1994</u> |
|---|-----------------|-----------------|
| | (Millions) | |
| Long-Term Debt | | |
| Held by public — senior | | |
| Maturing in fiscal year 1996 — 3.81% to 5.94% | \$ — | \$ 1,306 |
| Maturing in fiscal year 1997 — 3.30% to 6.87% | 2,250 | 3,137 |
| Maturing in fiscal year 1998 — 5.07% to 6.98% | 453 | 653 |
| Maturing in fiscal year 1999 — 6.25% to 7.625% | 1,550 | 1,650 |
| Maturing in fiscal year 2000 through 2045 — 6.125% to 8.625% | 14,900 | 12,400 |
| Held by Federal Financing Bank — senior | | |
| Maturing during fiscal years 2003 through 2017 — 7.285% to 11.695% .. | 3,200 | 3,400 |
| Held by public — subordinated | | |
| Maturing in fiscal year 2045 — 8.00% | <u>600</u> | <u>—</u> |
| Total long-term debt | 22,953 | 22,546 |
| Unamortized discount | <u>(370)</u> | <u>(340)</u> |
| Net long-term debt | 22,583 | 22,206 |
| Total Debt | <u>\$26,720</u> | <u>\$25,531</u> |

Between October 1989 and September 1995, TVA sold \$23.4 billion in Power Bonds to the public, using the proceeds to advance refund \$21.7 billion in previously issued long-term debt. Bond issues of \$17.5 billion held by the public are redeemable in whole or in part at TVA's option on call dates ranging from the present to July 2020 at call prices ranging from 100 percent to 106.7 percent of the principal amount. TVA incurred premiums totaling \$1.4 billion to effect these advance refundings, which premiums are being deferred and recognized as an expense ratably through the maturity dates of the new debt issues. Certain advance refundings were effected through insubstance defeasance transactions, wherein TVA transferred sufficient funds to establish irrevocable trusts to hold securities that are scheduled to earn interest and mature in amounts sufficient to meet debt service requirements. At September 30, 1995, and 1994, TVA had outstanding long-term debt of \$1.2 billion and \$3.8 billion respectively, which had been defeased.

The interest rate on short-term debt owed to the U.S. Treasury as of September 30, 1995, was 6.00 percent and the weighted average rate applicable to short-term debt outstanding in the public market as of September 30, 1995, was 5.79 percent.

During fiscal years 1995, 1994, and 1993, the maximum outstanding balance of short-term borrowings held by the public was (in millions) \$3,503, \$4,062, and \$3,302, respectively, and the average amounts (and weighted average interest rates) of such borrowings were approximately (in millions), \$2,743 (5.83 percent), \$3,163 (3.75 percent), and \$2,117 (3.19 percent), respectively.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The methods and assumptions used to estimate the fair values of each class of financial instruments are in accordance with Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments."

Cash, investment fund, and short-term debt

The carrying amount approximates fair value because of the short-term maturity of these instruments.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Loans and long-term receivables

Fair values for these homogeneous categories of loans and receivables are estimated by determining the present value of future cash flows using the current rates at which similar loans are presently made to borrowers with similar credit ratings and for the same remaining maturities.

Bonds

Fair value of long-term debt traded in the public market is determined by multiplying the par value of the bonds by the quoted market price (asked price) nearest the balance sheet date. The fair value of other long-term debt and long-term debt held by the Federal Financing Bank is estimated by determining the present value of future cash flows using rates of financial instruments with quoted market prices of similar characteristics of the same remaining maturities.

The estimated values of financial instruments are as follows:

| | 1995 | | 1994 | |
|--|----------------------------|------------------------|----------------------------|------------------------|
| | Carrying Amount | Fair Amount | Carrying Amount | Fair Amount |
| | (Millions) | | | |
| Cash | \$ 131 | \$ 131 | \$ 152 | \$ 152 |
| Investment funds | 260 | 260 | 150 | 150 |
| Loans and long-term receivables | 394 | 378 | 355 | 345 |
| Short-term debt | 2,831 | 2,831 | 2,609 | 2,609 |
| Long-term debt, including current maturities | 24,259 | 24,426 | 23,262 | 22,590 |

8. RETIREMENT PLANS

Pension plan

TVA has a contributory, defined benefit plan covering most full-time employees. Plan assets are primarily stocks and bonds. TVA contributes to the plan such amounts as are necessary on an actuarial basis to provide assets sufficient to meet the obligations for benefits. The pension amount is based on the member's years of creditable service, average base pay for the highest three consecutive years, and the pension rate for the member's age and years of service, less a Social Security offset.

The components of pension expense for TVA for fiscal years 1995, 1994, and 1993 were:

| | 1995 | 1994 | 1993 |
|---|-------------------|--------------|--------------|
| | (Millions) | | |
| Service Cost..... | \$ 62 | \$ 76 | \$ 77 |
| Interest cost on projected benefit obligation | 304 | 275 | 256 |
| Actual return on assets..... | (816) | (32) | (512) |
| Net amortization and deferral | 450 | (307) | 209 |
| Net pension costs | <u>\$ 0</u> | <u>\$ 12</u> | <u>\$ 30</u> |

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|--|--------------|-----------------|-----------------|
| | (Millions) | | |
| The plan's funded status was: | | | |
| Actuarial present value of benefit obligations | | | |
| Vested benefit obligation | \$(3,256) | \$(2,839) | \$(2,844) |
| Nonvested benefits | <u>(113)</u> | <u>(111)</u> | <u>(106)</u> |
| Accumulated benefit obligation | (3,369) | (2,950) | (2,950) |
| Effects of projected future compensation | <u>(323)</u> | <u>\$ (389)</u> | <u>\$ (409)</u> |
| Projected benefit obligation | (3,692) | (3,339) | (3,359) |
| Plan asset at fair value | <u>4,375</u> | <u>3,674</u> | <u>3,718</u> |
| Excess of plan assets over projected benefit obligation | 683 | 335 | 359 |
| Unrecognized net gain | (627) | (280) | (343) |
| Unrecognized net obligation being amortized over 15 years beginning October 1, 1987 | <u>2</u> | <u>3</u> | <u>3</u> |
| Prepaid pension cost | <u>\$ 58</u> | <u>\$ 58</u> | <u>\$ 19</u> |

The discount rate used to determine the actuarial present value of the projected benefit obligation was 7.5 percent in 1995, 8.5 percent in 1994, and 8.0 percent in 1993. The assumed annual rates of increase in future compensation levels for 1995 range from 3.3 to 8.3 percent, 1994 ranged from 4.3 to 9.3 percent, and 1993 ranged from 3.5 to 9.3 percent. The expected long-term rate of return on plan assets was 11 percent for 1995, 1994, and 1993.

Other postretirement benefits

TVA sponsors an unfunded defined benefit postretirement plan which provides for contributions toward the cost of retirees' medical coverage. The plan covers employees whose age plus years of service at retirement equals 60 or more. TVA's contributions are a flat dollar amount based upon the participants' age and years of service and certain payments toward the plan costs.

The following sets forth TVA's plan funded status at September 30:

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|---|--------------|--------------|--------------|
| | (Millions) | | |
| Accumulated Postretirement Benefit Obligation (APBO): | | | |
| Retirees | \$214 | \$166 | \$144 |
| Fully eligible active plan participants | 1 | 1 | 1 |
| Other active participants | <u>116</u> | <u>114</u> | <u>139</u> |
| | 331 | 281 | 284 |
| Unrecognized net gain (loss) | <u>(15)</u> | <u>6</u> | <u>(5)</u> |
| Accrued postretirement benefit cost | <u>\$316</u> | <u>\$287</u> | <u>\$279</u> |
| Net Periodic Postretirement Benefit Cost for these fiscal years included the following components: | | | |
| Service cost | \$ 7 | \$ 10 | \$ 9 |
| Interest cost | 26 | 22 | 22 |
| Amortization of gain | <u>—</u> | <u>(5)</u> | <u>—</u> |
| Net periodic postretirement benefit cost | <u>\$ 33</u> | <u>\$ 27</u> | <u>\$ 31</u> |

The annual assumed cost trend for covered benefits is 11.5 percent in fiscal year 1995, decreasing by one-half percent per year reaching 5.5 percent in 2007 and thereafter. For fiscal years 1994 and 1993 an annual trend

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

rate of 13.0 percent and 13.5 percent respectively was assumed. The effect of the change in assumptions on a cost basis was not significant. Increasing the assumed health-care cost trend rates by one percent would increase the accumulated postretirement benefit obligation (APBO) as of September 30, 1995, by \$20 million and the aggregated service and interest cost components of net periodic postretirement benefit cost for 1995 by \$2 million.

The weighted average discount rate used in determining the APBO was 7.5 percent for fiscal year 1995, 8.5 percent for fiscal year 1994, and 8.0 percent for fiscal year 1993. Gains and losses resulting from experience different from that assumed or from changes in assumptions are amortized using a straight-line method over four years.

Other postemployment benefits

Statement of Financial Accounting Standards, “Employers Accounting for Postemployment Benefits” (SFAS No. 112) applies to postemployment benefits including workers’ compensation provided to former or inactive employees, their beneficiaries, and covered dependents after employment, but before retirement. Adoption of SFAS No. 112 on October 1, 1994, changed TVA’s method of accounting from recognizing costs as benefits are paid, to accruing the expected costs of providing these benefits. This resulted in recognition of a transition obligation of approximately \$280 million. In connection with adoption of SFAS No. 112, TVA recorded a regulatory asset of \$280 million, which is being amortized over approximately 15 years whereby the annual expense will approximate the expense recorded prior to adoption of SFAS No. 112.

1995 Early-Out Termination Package

During 1995, TVA made available a voluntary early-out benefit termination package which was accepted by approximately 2,500 employees at a cost of \$148 million. The components of the package consisted of severance pay (\$74 million), retirement benefits (\$52 million), and postretirement health benefits (\$22 million). Of the total cost, \$136 million was applicable to the power program and was charged to other expense during 1995. The remaining \$12 million was applicable to nonpower operations and was recorded by the power program as a long-term receivable to be recovered from future available nonpower funds.

9. MAJOR CUSTOMERS

In accordance with contract provisions the Department of Energy (DOE) exercised its right prior to fiscal year 1987 to reduce the amount of electric power it would purchase from TVA. TVA and DOE reached an agreement in December 1987, whereby DOE’s payment obligations were satisfied through a series of payments to TVA totaling over \$1.8 billion between 1987 and 1994. Scheduled payments of \$160 million are included in revenues in 1993 and 1994.

One municipal customer accounts for approximately 10 percent of total power sales and four other municipal customers account for an additional 21 percent of total power sales. All five of these municipal customers have contracts without stated expiration dates, and in no event would the remaining contract term be less than 10 years.

10. CONSTRUCTION EXPENDITURES AND COMMITMENTS AND CONTINGENCIES

Construction expenditures, including capitalized interest, are estimated to be \$1.3 billion for fiscal year 1996. Estimates for capital expenditures beyond 1996 will depend upon the outcome of TVA’s integrated resource planning effort. These estimates are revised periodically to reflect changes in economic conditions and other factors considered in their determination. Substantial commitments have been incurred for these projects. Approximately \$2.7 billion in long-term commitments, ranging in terms of up to nine years, have been entered into for the purchase of coal.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Nuclear insurance

The Price-Anderson Act sets forth an indemnification and limitation of liability plan for the U.S. nuclear industry. All Nuclear Regulatory Commission (NRC) licensees, including TVA, maintain nuclear liability insurance in the amount of \$200 million for each plant with an operating license. The second level of financial protection required is the industry's retrospective assessment plan, using deferred premium charges. The maximum amount of the deferred premium for each nuclear incident is approximately \$79 million per reactor, but not more than \$10 million per reactor may be charged in any one year for each incident. TVA could be required to pay a maximum of \$396 million per nuclear incident on the basis of its five licensed units but it would have to pay no more than \$50 million per incident in any one year. Some of the amounts include a 5 percent surcharge if additional funds are needed to satisfy public liability claims and legal costs and are subject to adjustment for inflation.

In accordance with NRC regulations, TVA carries, at each licensed nuclear plant, property and decontamination insurance of \$1.06 billion for the cost of stabilizing or shutting down a reactor after an accident. Some of this insurance may require the payment of retrospective premiums of up to a maximum of approximately \$30 million.

Acid rain legislation

The Clean Air Act Amendments of 1990 will result in substantial expenditures for the reduction of sulfur dioxide, nitrogen oxide, and possible toxic emissions at several of TVA's coal-fired generating plants. TVA's present compliance strategy to reduce sulfur dioxide includes adding scrubbers at three fossil plants and the use of low-sulfur coal at seven fossil plants. During 1995, TVA completed the addition of scrubbers at one of three targeted plants at a cost of \$638 million. Additionally during 1995, TVA effected low-sulfur fuel switches at two of the seven targeted plants. TVA will achieve nitrogen oxide emission reductions required before January 1, 1996, as a result of the installation of low-nitrogen oxide burners at 13 of its 19 units. Annual operating and fuel expenses (excluding capital recovery) could increase \$30 to \$70 million over current fossil operating expenses for the years 1996 through 1999. Phase 2 requirements become effective in the year 2000. The cost of compliance cannot reasonably be determined at this time due to the uncertainties surrounding final Environmental Protection Agency (EPA) regulations, resultant compliance strategy, potential for development of new emission control technologies, and future amendments to the legislation. Requirements for toxic emissions have not been determined by the EPA.

Litigation

TVA is a party to various civil lawsuits and claims that have arisen in the ordinary course of its business. Although the outcome of pending litigation cannot be predicted with any certainty, it is the opinion of TVA counsel that the ultimate outcome should not have a material adverse effect on TVA's financial position or results of operations.

11. NONPOWER PROGRAMS

TVA's nonpower programs are charged with the delivery of various public services. These public services include managing the Tennessee Valley's navigable channels, providing flood control, overseeing certain recreation facilities, and generating general business development. The nonpower programs also serve the Tennessee Valley through the general stewardship of land, water, and wildlife resources. Benefits attributable to these efforts include a potable water supply, water pollution prevention, aquatic habitat protection, forest management, and shoreline protection. TVA's nonpower programs also conduct certain research and development activities in pollution prevention and remediation.

TENNESSEE VALLEY AUTHORITY
NOTES TO FINANCIAL STATEMENTS — (Continued)

Funding for the nonpower programs is primarily provided through federal appropriations. During 1995 and 1994, the nonpower programs received appropriations of \$139 million and \$140 million respectively. Certain nonpower program activities are also funded by user fees and outside service revenues.

During 1995, the nonpower programs had net expense of \$182 million, which included a \$69 million charge for the write-off of the Columbia Dam and Reservoir project. The Columbia Dam and Reservoir, a multipurpose project financed by congressional appropriations, was suspended in prior years due to budget restrictions and environmental concerns. During 1995, TVA determined that the Columbia Dam would not be completed, and accordingly the project was written off.

Completed plant — Nonpower programs

Completed plant stated at gross consists of the following at September 30:

| | 1995 | | | 1994 | | |
|--------------------------|----------------|---------------------------------|--------------|----------------|---------------------------------|---------------|
| | <u>Cost</u> | <u>Accumulated depreciation</u> | <u>Net</u> | <u>Cost</u> | <u>Accumulated depreciation</u> | <u>Net</u> |
| | (Millions) | | | | | |
| NONPOWER PROGRAMS | | | | | | |
| Hydro dams | \$ 914 | \$232 | \$682 | \$ 913 | \$ 221 | \$ 692 |
| Other | <u>162</u> | <u>58</u> | <u>104</u> | <u>232</u> | <u>56</u> | <u>176</u> |
| Total nonpower | <u>\$1,076</u> | <u>\$290</u> | <u>\$786</u> | <u>\$1,145</u> | <u>\$ 277</u> | <u>\$ 868</u> |

Appropriation Investment — Nonpower programs

Changes in the appropriation investment during the fiscal years ended September 30:

| | <u>1995</u> | <u>1994</u> | <u>1993</u> |
|---|----------------|----------------|----------------|
| | (Millions) | | |
| NONPOWER PROGRAMS | | | |
| Congressional appropriations | \$4,086 | \$3,947 | \$3,806 |
| Transfers of property from other federal agencies | 41 | 41 | 41 |
| Repayments to general fund of the U.S. Treasury | <u>(42)</u> | <u>(42)</u> | <u>(42)</u> |
| Net appropriation investment | <u>\$4,085</u> | <u>\$3,946</u> | <u>\$3,805</u> |

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the Tennessee Valley Authority

We have audited the accompanying balance sheets (power program and all programs) of the Tennessee Valley Authority as of September 30, 1995 and 1994, and the related statements of income and retained earnings (power program), net expense and accumulated net expense (nonpower programs) and cash flows (power programs and all programs) for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Tennessee Valley Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principle used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to the financial statements, the Tennessee Valley Authority has announced that it will not, by itself, complete certain deferred projects as nuclear units. Consideration is being given to converting these units to another fuel source or entering into arrangements with third parties to complete as nuclear units.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the power program and all programs of the Tennessee Valley Authority as of September 30, 1995 and 1994, and the results of operations of the power program and nonpower programs and cash flows of the power program and all programs for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

As discussed in note 9 to the financial statements, in 1995 the Tennessee Valley Authority adopted Statement of Financial Accounting Standard No. 112. "Employers Accounting for Postemployment Benefits."

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 1995, on our consideration of the Tennessee Valley Authority's internal control structure and a report dated November 16, 1995, on its compliance with laws and regulations.

Coopers & Lybrand L.L.P.
Knoxville, Tennessee
November 16, 1995

REPORT OF MANAGEMENT

Management is responsible for the preparation, integrity, and objectivity of the financial statements of the Tennessee Valley Authority as well as all other information contained in the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the annual report is consistent with that in the financial statements.

The Tennessee Valley Authority maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that the assets of the corporation are properly safeguarded. The system of internal controls is documented, evaluated, and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

Coopers & Lybrand was engaged to audit the financial statements of the Tennessee Valley Authority and issue reports thereon. Their audits were conducted in accordance with generally accepted auditing standards. Such standards require a review of internal controls, examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the annual report.

David N. Smith
Chief Financial Officer

COMPARATIVE FIVE-YEAR DATA

Statistical and Financial Summaries

| | For the years ended September 30, | | | | |
|---|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| Sales (millions of kilowatt-hours) | | | | | |
| Municipalities and cooperatives | 110,245 | 108,073 | 105,566 | 98,505 | 97,299 |
| Federal agencies | 7,226 | 4,407 | 2,382 | 2,204 | 2,148 |
| Industries directly served | 16,684 | 15,792 | 16,196 | 16,576 | 17,422 |
| Electric utilities | — | — | — | — | 48 |
| Total sales | <u>134,155</u> | <u>128,272</u> | <u>124,144</u> | <u>117,285</u> | <u>116,917</u> |
| Operating revenues (millions of dollars) | | | | | |
| Electric | | | | | |
| Municipalities and cooperatives | \$ 4,654 | \$ 4,582 | \$ 4,479 | \$ 4,266 | \$ 4,272 |
| Federal agencies | 179 | 296 | 254 | 255 | 257 |
| Industries directly served | 460 | 452 | 472 | 472 | 531 |
| Electric utilities | — | — | — | 1 | 8 |
| Other | 82 | 71 | 71 | 71 | 68 |
| Total revenues | <u>\$ 5,375</u> | <u>\$ 5,401</u> | <u>\$ 5,276</u> | <u>\$ 5,065</u> | <u>\$ 5,136</u> |
| Revenue per kilowatt-hour (mills) (a) | <u>39.4</u> | <u>40.3</u> | <u>40.6</u> | <u>41.2</u> | <u>42.0</u> |
| Winter net dependable generating capacity (megawatts) | | | | | |
| Hydro(b) | 5,225 | 5,242 | 4,885 | 4,885 | 4,885 |
| Coal | 15,032 | 15,032 | 15,088 | 15,088 | 15,088 |
| Nuclear units in service | 3,342 | 3,342 | 3,365 | 3,361 | 3,361 |
| Combustion turbine | 2,232 | 2,264 | 2,284 | 2,284 | 2,284 |
| Total capacity | <u>25,831</u> | <u>25,880</u> | <u>25,622</u> | <u>25,618</u> | <u>25,618</u> |
| System peak loan (megawatts) — summer | 25,496 | 23,398 | 23,878 | 21,980 | 22,081 |
| System peak load (megawatts) — winter | 24,676 | 24,723 | 21,666 | 21,974 | 20,752 |
| Percent gross generation | | | | | |
| Coal | 71% | 72% | 77% | 70% | 70% |
| Hydro | 12% | 14% | 13% | 12% | 14% |
| Nuclear | 17% | 14% | 10% | 18% | 16% |
| Fuel cost per kilowatt-hour (mills) | | | | | |
| Coal | 12.6 | 13.4 | 12.7 | 13.3 | 13.5 |
| Nuclear(c) | 6.1 | 11.0 | 10.9 | 11.0 | 10.2 |
| Aggregate fuel cost per kwh net thermal generation... | 11.4 | 13.1 | 12.5 | 12.9 | 12.9 |
| Fuel data | | | | | |
| Net thermal generation (millions of kilowatt-hours) ... | 118,097 | 110,643 | 109,968 | 105,577 | 98,153 |
| Billion Btu | 1,197,295 | 1,120,868 | 1,105,395 | 1,069,725 | 998,934 |
| Fuel expense (millions) | \$ 1,348 | \$ 1,450 | \$ 1,375 | \$ 1,360 | \$ 1,263 |
| Cost per million Btu (cents) | 112.61 | 129.40 | 124.42 | 127.16 | 126.48 |
| Net heat rate, fossil only | <u>10,138</u> | <u>10,131</u> | <u>10,052</u> | <u>10,132</u> | <u>10,177</u> |

(a) Excludes Department of Energy settlement payment of \$160 million for the years 1991-1994.

(b) Includes 405 megawatts of dependable capacity from the Corps of Engineers projects on the Cumberland River System.

(c) TVA changed its method of expensing the interest component of nuclear fuel expense in 1995 (see note 1).



*To be the recognized
world leader in
providing energy and
related services,
independently and in
alliances with others, for
society's global needs.*

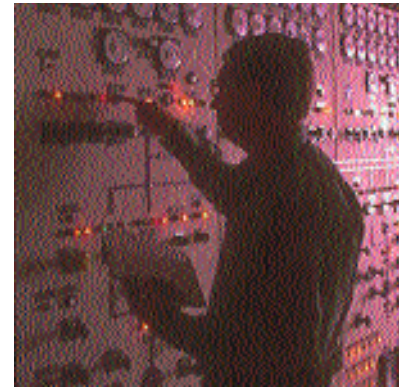


▲
*TVA's 16,800-mile system of
transmission lines through seven
states serves as a vital part of the
United States energy infrastructure.*



▲
*TVA's power system is one of
the largest in the United States
in both generating capacity
and energy production.*

*TVA is environmentally
sensitive in the management of
the thousands of acres it is
responsible for along the
Tennessee River system.*



▲
*TVA's electric generation
facilities are state of the art,
including computer
controlled production.*

*TVA manages over 600
miles of the Tennessee River
system for flood control,
navigation, power
production, and
recreation.*



No dealer, salesperson or any other person has been authorized to give any information or to make any representations not contained in this Offering Circular, the current Information Statement (as defined herein), or any supplement to any of the foregoing and, if given or made, such information or representations must not be relied upon as having been authorized by TVA or the Underwriters. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the 1996 Series A QIDS offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this Offering Circular or the current Information Statement nor any sale made hereunder shall, under any circumstances, create an implication that the information herein is correct as of any time subsequent to its date hereof or that there has been no change in the affairs of TVA since such date.

TABLE OF CONTENTS

Offering Circular

| | <u>Page</u> |
|---|-------------|
| Risk Factors | C-3 |
| Summary of Offering | C-5 |
| Tennessee Valley Authority | C-7 |
| Use of Proceeds..... | C-7 |
| Recent Developments | C-7 |
| Description of 1996 Series A QIDS..... | C-11 |
| Legality of Investment | C-17 |
| Tax Considerations Applicable to 1996 Series A QIDS..... | C-18 |
| Underwriting | C-20 |
| Validity of 1996 Series A QIDS | C-22 |

Information Statement

| | |
|--|------|
| The Tennessee Valley Authority | 1 |
| Selected Financial Data | 2 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 3 |
| The Area Supplied by TVA..... | 4 |
| Rates, Customers and Market | 5 |
| Competition | 6 |
| Power and Energy Requirements | 7 |
| Capital Expenditures | 7 |
| Power System..... | 7 |
| Nuclear Power Program | 9 |
| Environmental Matters..... | 13 |
| Insurance | 15 |
| Management | 16 |
| Employees..... | 17 |
| Certain Provisions of the Tennessee Valley Authority Act..... | 17 |
| The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness | 18 |
| Independent Accountants..... | 25 |
| Financial Statements | F-1 |
| Report of Independent Accountants | F-18 |
| Report of Management | F-19 |
| Comparative Five-Year Data | F-20 |

\$500,000,000

Tennessee Valley Authority

1996 Series A QIDS

**7½% Quarterly Income Debt Securities
1996 Series A Due March 31, 2046
(Subordinated Deferrable
Interest Debt Securities)**

OFFERING CIRCULAR

**Goldman, Sachs & Co.
Merrill Lynch & Co.
Dean Witter Reynolds Inc.
A.G. Edwards & Sons, Inc.
PaineWebber Incorporated
Prudential Securities Incorporated
Smith Barney Inc.**

Representatives of the Underwriters
